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HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

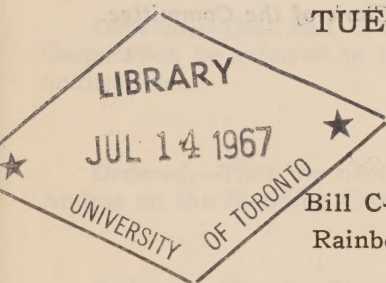
Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1-15

1967-68

TUESDAY, JUNE 20, 1967



Respecting

Bill C-105 An Act to incorporate  
Rainbow Pipe Line Corporation.

WITNESSES:

*Representing Rainbow Pipeline Corporation:* Mr. A. E. Barroll, Vice-president, Mobil Oil Canada Limited; Mr. E. M. Bredin, Secretary, Mr. Gordon Blair, Parliamentary Agent.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE ON TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H. Pit Lessard

and

<sup>1</sup> Mr. Allmand,	Mr. Deachman,	Mr. Olson,
Mr. Bell ( <i>Saint John-</i>	Mr. Horner ( <i>Acadia</i> ),	Mr. Orlikow,
<i>Albert</i> ),	Mr. Howe ( <i>Wellington-</i>	Mr. Pascoe,
Mr. Byrne,	<i>Huron</i> ),	Mr. Rock,
Mr. Cantelon,	Mr. Jamieson,	Mr. Schreyer,
Mr. Clermont,	<sup>2</sup> Mr. Nowlan,	Mr. Sherman,
<sup>3</sup> Mr. Chatwood,	Mr. McWilliam,	Mr. Southam,
<sup>4</sup> Mr. Crossman	<sup>5</sup> Mr. O'Keefe,	<sup>6</sup> Mr. Stafford—24.

(Quorum 13)

<sup>1</sup> Replaced Mr. Andras on June 14, 1967.

<sup>2</sup> Replaced Mr. Groos on June 19, 1967.

<sup>3</sup> Replaced Mr. MacEwan on June 19, 1967.

<sup>4</sup> Replaced Mr. Reid on June 19, 1967.

<sup>5</sup> Replaced Mr. Émard on June 19, 1967.

<sup>6</sup> Replaced Mrs. Rideout on June 20, 1967.

R. V. Virr,

Clerk of the Committee.





## ORDERS OF REFERENCE

FRIDAY, May 19, 1967.

*Resolved*,—That the following Members do compose the Standing Committee on Transport and Communications:

Messrs.

Andras,  
Bell (*Saint John-  
Albert*),  
Byrne,  
Cantelon,  
Clermont,  
Deachman,  
Émard,  
Groos,

Horner (*Acadia*),  
Howe (*Wellington-  
Huron*),  
Jamieson,  
Lessard,  
Macaluso,  
MacEwan,  
McWilliam,  
Olson,

Orlikow,  
Pascoe,  
Reid,  
Rideout (*Mrs.*),  
Rock,  
Schreyer,  
Sherman,  
Southam—(24).

TUESDAY, May 30, 1967.

*Ordered*,—That Bill C-104, An Act respecting The Bell Telephone Company of Canada be referred to the Standing Committee on Transport and Communications.

THURSDAY, June 8, 1967.

*Ordered*,—That Bill C-105, An Act to incorporate Rainbow Pipe Line Corporation be referred to the Standing Committee on Transport and Communications.

WEDNESDAY, June 14, 1967.

*Ordered*,—That the name of Mr. Allmand be substituted for that of Mr. Andras on the Standing Committee on Transport and Communications.

FRIDAY, June 16, 1967.

*Ordered*,—That the Standing Committee on Transport and Communications be authorized to sit while the House is sitting.

MONDAY, June 19, 1967.

*Ordered*,—That the names of Messrs. O'Keefe, Nowlan, Stafford and Chatwood be substituted for those of Messrs. Groos, MacEwan, Reid and Émard on the Standing Committee on Transport and Communications.

*Ordered*,—That the Annual Reports for 1966 of the Canadian National Railways and of the Canadian National Railways Securities Trust tabled April 26, 1967 and the Auditor's Report to Parliament for 1966 in respect of the Canadian National Railways tabled May 29, 1967 be referred to the Standing Committee on Transport and Communications.

TUESDAY, June 20, 1967.

Ordered,—That the name of Mr. Crossman be substituted for that of Mrs. Rideout on the Standing Committee on Transport and Communications.

Attest

LÉON-J. RAYMOND,  
The Clerk of the House of Commons.



## REPORTS TO THE HOUSE

TUESDAY, June 13, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### FIRST REPORT

Your Committee recommends that it be authorized to sit while the house is sitting.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*

(Concurred in on Friday, June 16, 1967)

The Standing Committee on Transport and Communications has the honour to present its

### SECOND REPORT

Your Committee has considered Bill C-105, An Act to incorporate Rainbow Pipe Line Corporation, and has agreed to report it without amendment.

A copy of the relevant Minutes of Proceedings and Evidence (*Issue No. 1*) is tabled.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*





## MINUTES OF PROCEEDINGS

TUESDAY, June 13, 1967.

(1)

The Standing Committee on Transport and Communications met this day at 10:10 a.m. for purposes of organization.

*Members present:* Messrs. Andras, Bell (*Saint John-Albert*), Byrne, Clermont, Deachman, Groos, Horner (*Acadia*), Howe (*Wellington-Huron*), Lessard, Macaluso, McWilliam, Pascoe, Reid, Rock—(14).

The Committee Clerk attending and having called for nominations, Mr. Deachman moved, seconded by Mr. Byrne, that Mr. Macaluso do take the Chair of this Committee as Chairman.

On motion of Mr. Lessard, seconded by Mr. Groos,

*Resolved*,—That nominations be closed.

Mr. Macaluso, having been declared elected as Chairman took the Chair and thanked the Committee for the honour conferred upon him.

Moved by Mr. McWilliam, seconded by Mr. Clermont,

*Resolved*,—That Mr. Lessard be elected Vice-Chairman of this Committee.

On motion of Mr. Bell (*Saint John-Albert*), seconded by Mr. Reid,

*Resolved*,—That nominations be closed.

The Chairman therefore declared Mr. Lessard elected as Vice-Chairman of this Committee.

On motion of Mr. Rock, seconded by Mr. Groos,

*Resolved*,—That the Committee print from day to day 850 copies in English and 350 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Rock, seconded by Mr. Howe (*Wellington-South*),

*Resolved*,—That the Chairman and Vice-Chairman and five members appointed by the Chairman do compose the Subcommittee on Agenda and Procedure (Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Olson and Schreyer).

The Chairman informed the Committee that two items Bill C-104, An Act respecting The Bell Telephone Company of Canada and Bill C-105, An Act to incorporate Rainbow Pipe Line Corporation, had been referred to the Committee and that there was a strong possibility of the Annual Reports of the CNR and CNR Securities Trust being referred shortly. He asked the Committee for an expression of opinion as to the order in which the various references should be considered.

It was unanimously agreed by the Committee that the Bell Telephone Bill C-104 would be given first priority after the summer recess and that the Committee would attempt to dispose of the Rainbow Pipe Line Bill C-105 and the Annual Report of the Canadian National Railway before the summer recess.

Mr. Deachman suggested that the Committee should consider hiring experts to advise the Committee on the various matters to be discussed by the Committee. After discussion it was agreed that this was a matter for discussion by the Subcommittee and that they should report upon it when necessary.

Moved by Mr. Reid, seconded by Mr. Rock,

That the Committee seek permission to reduce its quorum from 13 to 9 members. After debate thereon, the Committee agreed to the withdrawal of the motion.

Moved by Mr. Rock, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*,—That the Committee seek permission to sit while the House is sitting.

At 10:30 a.m. the Committee adjourned to the call of the Chair.

TUESDAY, June 20, 1967.

(2)

The Standing Committee on Transport and Communications met this day at 10:07 a.m., the Chairman, Mr. Macaluso, presiding.

*Members present*: Mrs. Rideout and Messrs. Byrne, Cantelon, Chatwood, Clermont, Horner (*Acadia*), Jamieson, Lessard, Macaluso, Nowlan, Olson, Orlikow, Pascoe, Rock, Sherman, Southam, Stafford (17).

*Also present*: Messrs. Groos, Lambert and Orange.

*In attendance: Representing the Rainbow Pipe Line Corporation*: Mr. A. E. Barroll Vice-president, Mobil Oil Canada Ltd., Mr. E. M. Bredin, secretary, Mr. Gordon Blair, Parliamentary Agent.

The Committee had for consideration Bill C-105, An Act to incorporate the Rainbow Pipe Line Corporation sponsored by Mr. Orange, M.P.

The Chairman called upon the sponsor who introduced the Parliamentary Agent. Mr. Blair in turn introduced the representatives of the Corporation.

Mr. Barroll, the vice-president of Mobil Oil Canada Ltd., gave a brief history of the oil development in North-western Alberta and the reasons that Rainbow Pipe Line Corporation were seeking a Federal Charter. He also tabled a set of three maps showing the area concerned.

On motion of Mr. Lessard, seconded by Mr. Southam,

*Resolved*,—That the maps, identified as *Exhibit No. 1* be given into the custody of the clerk for safe keeping.

The members of the Committee then questioned the representatives of Rainbow Pipe Line Corporation.

There being no further questions, Clauses 1 to 11 inclusive of the Bill were carried.

The Preamble was carried on division with the Chairman casting the deciding vote.

The title was carried.

The Bill was carried.

The Chairman was instructed to report the Bill without amendment.

On motion of Mr. Lessard, seconded by Mr. Rock, the Committee adjourned at 11:35 a.m. to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

**Tuesday, June 20, 1967**

**The Chairman:** Mrs. Rideout and gentlemen, we have a quorum.

We have before us this morning Bill No. C-105, "An Act to incorporate Rainbow Pipe Line Corporation". Mr. Orange is the sponsor of the bill, and I will now ask him to introduce the representatives of the Rainbow Pipe Line Corporation and the witnesses.

**Mr. Orange:** Mr. Chairman, Mrs. Rideout and gentlemen, the three witnesses who will be before us this morning are Mr. Gordon Blair of Ottawa, Parliamentary Agent, Mr. A. E. Barroll, Vice President, Mobil Oil Canada Limited, Calgary, and Mr. E. M. Bredin, Q.C., Secretary of Rainbow Pipe Line Corporation.

**The Chairman:** Thank you, Mr. Orange. Perhaps Mr. Barroll and Mr. Bredin would join us at the table?

Mrs. Rideout and gentlemen, to my right is Mr. Gordon Blair, Parliamentary Agent for Rainbow Pipe Line Corporation; to his right, Mr. Barroll; and to his right, Mr. Bredin, Q.C. Mr. Blair?

**Mr. Gordon Blair (Parliamentary Agent for Rainbow Pipe Line Corporation):** Mr. Chairman, Mrs. Rideout and gentlemen, we have distributed a bundle which consists of three maps and the text of the statement which Mr. Barroll will make on behalf of the proposed company. Large copies of the maps are on the wall for the purpose of assisting you in determining where the proposed pipe line will be located in relation to existing pipe line systems.

Mr. Barroll is a Vice President of Mobil Oil Canada Limited, one of the companies participating in this project, and Mr. E. M. Bredin, Q.C., is Secretary of Rainbow Pipe Line Corporation and of the Alberta company known as Rainbow Pipe Line Company Limited.

With your permission I suggest that we call on Mr. Barroll to make an explanatory statement, after which all of us will be available to assist in any way we can by answering questions.

**The Chairman:** Thank you, Mr. Blair. Before doing so may I have a motion to table maps one, two and three?

**Mr. Lessard:** I so move.

**Mr. Southam:** I second the motion.

**The Chairman:** It is moved by Mr. Lessard and seconded by Mr. Southam that maps one, two and three be tabled. All those in favour?

**Some hon. Members:** Agreed.

Motion agreed to.

**Mr. A. E. Barroll (Vice President, Mobil Oil Canada Limited):** Mr. Chairman, hon. members, we appreciate this opportunity of presenting our case before this Committee.

The question before this Committee is concerning the incorporation under Federal charter of Rainbow Pipe Line Corporation. This bill for incorporation comes about as a request from the owners of Rainbow Pipe Line Company. This company, which was incorporated under Provincial charter, has already made a sizable investment in the construction of a major pipe line system within the provincial boundaries of Alberta. Perhaps it is appropriate that I should provide you with the historical sequence of events leading up to this application which stands before the Committee today, particularly since many of the questions which might be in your minds may have already been answered by the performance of Rainbow Pipe Line Company to date. Because I may be referring to the maps, Mr. Chairman, I will stand.

The entire history of development in Northwestern Alberta goes back to a discovery at Rainbow Lake made on lands held jointly by the Banff-Acquitaine Group and Mobil Oil Canada Limited in the first quarter of 1965. That discovery was made right there. The discovery well was an excellent one and exploration activities continued during the spring and summer of 1965 to the extent that it was obvious that a market outlet would be required to sustain the rate of development indicated to be necessary. Because Imperial Oil Limited had extensive land holdings in the vicinity along with

Banff-Aquitaine Group and Mobil Oil Canada, the three parties in the fall of 1965 formed Rainbow Pipe Line Company and during the winter 1965-66 this company constructed 240 miles of 20 inch pipe line between Rainbow Lake field and Nipisi field at a cost of some \$28,000,000.

This connection to Mitsue Pipe Line provided an initial, although restricted, outlet appropriate to the volumes that were to be produced in the initial phases of development. While this was going on, the entire northwestern area of Alberta came to be regarded as a highly prospective area and many companies commenced exploratory operations in this whole general area. The operations resulted in the discovery of additional pools in the Rainbow Lake area—in this vicinity here. As you can see, there are 23 oil pools in there now. In addition to this, a discovery was made in the Zama Lake field, where there are some 63 wells at present; and there are 23 separate reservoirs that have been reported. The operations here extend to within approximately 50 miles of the Northwest Territories boundary.

Rainbow Pipe Line Company reacted to these major developments by authorizing the construction of an additional 180 miles of 24 inch pipe line between Nipisi and the city of Edmonton to accommodate the now assured increased volumes of crude oil production. In addition to this, a 58 mile northerly extension of 20 inch pipe was laid to Zama Lake field, and this construction was completed in March 1967.

As it currently stands, Rainbow Pipe Line Company has a 20- and 24-inch crude oil trunk system extending to within 51 miles of the Northwest Territories boundary and connecting to the major market distribution crude oil pipe line terminals of Interprovincial Pipe Line and Trans Mountain Pipe Line Company at the City of Edmonton. The cost of the entire system stands at some \$57,000,000 and it is currently moving about 55,000 barrels per day of Canadian crude to markets.

I think that questions may stand in your mind as to *why* Rainbow Pipe Line Company is asking for a Federal charter, why is it asking for a Federal charter *now* and, finally, if granted a Federal charter, where and when would it construct its facilities.

To answer these questions, I think it is apparent that the reason we request a Federal charter is so that, if crude oil in suitable volumes is discovered in the Northwest Territories, we would be in a position to proceed with construction so as to bring this

crude oil to market as expeditiously as possible. I believe Rainbow Pipe Line Company's history, which I have just related to you, provides some proof of performance of Rainbow's intention and ability to do that. Rainbow has had this application before Parliament since February of 1966. Because of terrain and logistical conditions in northwestern Alberta and Northwest Territories area, the work under question can only proceed in the winter when the ground is frozen. Six months lead planning time is required before construction can commence. Obviously, if we are to bring new discoveries to market promptly, we cannot afford to wait until the discoveries are made prior to making application for the Federal incorporation necessary to cross provincial boundaries. I believe this sums up the reasons why we must apply prior to having a definite point of construction or amount of production to be connected. This is not to say that we look at all pessimistically to the possibilities of there being large volumes of crude oil to be discovered in the Northwest Territories. Entirely the reverse is the case. The Middle Devonian formations which are productive at Rainbow and Zama Lake fields are known to extend into the Northwest Territories—as a matter of fact, the Middle Devonian outcrops at Pine Point, where it is mineralized and being mined for lead.

In addition to this, we have excellent indications from drilling in the area that there will be an extension into the Northwest Territories. These wells, although no information was been released on them, were drilled and tested last winter. The information is still considered confidential. They are located within a mile of the border of the Northwest Territories. They are reported as having a good oil show and are reported as being oil wells.

We would not be here today if we did not believe that there is an excellent possibility that production will be found in the Northwest Territories adjacent to the Alberta border within the next few years. Certainly exploration activity in this area is extensive, and once seismic programs are completed we can anticipate an active exploratory drilling program here. This we do know, that there were some six or eight seismic crews operating in the general vicinity last winter. The country generally is muskeg and most operators prefer to operate there during the wintertime when the travelling conditions are much better. In addition to this, it is reported



that there are four rigs operating in the Northwest Territories.

That represents the short-range viewpoint on an immediate extension across the border in this general vicinity. However, the long-range viewpoint is demonstrated on this map here.

We show outlines of the various geologic provinces, comprising the sedimentary basin area of the Northwest Territories and the Yukon Territory.

We show the estimated potential oil-in-place on these maps. In the Mackenzie River basin it is estimated there are some 9 billion barrels of oil-in-place; in the Eagle Plain Plateau, approximately 1 billion barrels; half a billion barrels in the Peel Plateau; half a billion barrels in the Mackenzie and Franklin Mountain area; and in the Northern Devonian shale basin, which extends from Alberta into the Northwest Territories, some 5.1 billion barrels of oil-in-place.

It is significant that the Norman Wells field has been known since the 1920's and has supplied the north country with petroleum products since the 1930's.

The Norman Wells field is located right here. It has been productive for a very long time. The Imperial Oil Company has a small refinery there and they supply the entire north country with petroleum products. There are 48 million barrels of oil known to be recoverable there and they have 63 wells drilled. Of course, the production from the field is very restricted because of the limited demand and lack of transport to outside markets.

Other evidences of petroleum deposits in the Northwest Territories are at Rond Lake and Belot Hills oil seeps. These are very extensive seeps. Petroleum comes to the surface here and because of weathering the deposition is essentially in the form of tar. There is a very direct relationship between the location of these oil seeps, in beds of lower crustaceous age relative to the deeper parts of the basin, and that in Alberta where we have the famous Athabasca Tar Sands right here; and, of course, the main producing areas of Alberta are along this general trend.

I think the basic theory is that, over geologic time, the oil has migrated up-dip to these oil sands, and we can make the same assumption up here at the Belot Hills and Rond Lake oil seeps.

These are all indications that there are extensive petroleum deposits in the Northwest Territories.

I think this should be summarized by saying that the Northwest Territories and Yukon Territory provide major petroleum-producing potential which is currently not economic because of the inaccessibility of markets capable of consuming large volumes of production.

I believe this summarizes our position as it pertains to the development of transportation from Federally administered territories.

If you will permit me, I might make a statement here as to the location of the Rainbow Pipe Line system relative to the major crude oil distribution systems that exist in Canada today. As shown on this map Rainbow Pipe Line system, as it is currently constructed, some 478 miles to this point here, connects to the terminals of Trans Mountain Pipe Line and Interprovincial Pipe Line. These are the main trunk line systems that supply crude oil to the west coast refineries and the general export area here on the northeast coast of Washington.

In addition, of course, the system ties into the Interprovincial system which extends down through the United States to eastern Canada and supplies the important prairie markets and the markets in the Great Lakes area and, of course, the Sarnia market which is the principal destination for this crude.

We have all heard a great deal in recent weeks, of course, about the possibility of developing additional markets in the Chicago area which is relatively a crude-short area at the present time.

I think it is significant that the crude coming through this system can be supplied to any market that exists in Canada through the existing systems. Obviously, for strategic and economic reasons, optimum flexibility is provided by connecting at the Edmonton terminal with these major crude oil distribution systems.

Finally, let me summarize the reasons why we request this charter be approved and why Rainbow Pipe Line Corporation will be in a position to provide transportation service for reserves to be discovered in the Northwest Territories:

1. There is indicated to be developing, as I have discussed, a definite need for crude oil transportation from the Northwest Territories in the near future. Exploration and development of an area cannot proceed without transportation facilities necessary to bring the production to market and provide the near-term revenue economically necessary for sustained development.



2. As regards precedent, Rainbow Pipe Line Company has demonstrated an ability and desire to provide timely transportation service by its activities in North-western Alberta. Within two years time since completion of the discovery well a complete transportation service has been provided to all producers in the area.

3. The owning companies of Rainbow are all major producers and as such have a direct interest in low cost transportation, so as to make crude oil competitively attractive in new market areas, and by expansion of these markets to increase produced volumes.

4. Rainbow Pipe Line Company, and Rainbow Pipe Line Corporation, when it becomes active, are and will be operating under common carrier status, guaranteeing to move any producers' oil at published tariff rates.

5. Rainbow Pipe Line Corporation will be integrated with Rainbow Pipe Line Company in a corporate sense. Because of Rainbow Pipe Line Company's now established position, it will have a good cash flow base upon which to finance any further northward developments necessary. Because of this good cash flow base, we anticipate that any financing necessary for northward construction should be available at lower interest rates based on the surety provided by the established system. This might not be the case if some other party were to build a short line to entirely new reserves. Financing costs, due to this localized risk, would probably be high, consequently higher tariff rates would be required to amortize this debt financing.

6. We wish to point out that the granting of a Federal charter to Rainbow Pipe Line Corporation would only entitle this corporation to apply to the National Energy Board for construction of a pipe line. There is nothing exclusive about the Federal charter and the final plans and proposals of Rainbow Pipe Line Corporation would be subject to further analysis and approval by this Board.

7. Finally, the people of Canada have a direct financial interest in development of petroleum resources in Federally administered territories. It is to the advantage of Canada, we believe, to pass enabling legislation permitting the development of these resources so as to accelerate return to the Government of Canada of royalty and lease sale revenue.

I might say that the prairie provinces obtained approximately \$300 million worth of revenue last year from these sources and that historically the petroleum industry has provided various governments of Canada with \$2.1 billion in revenue from this source.

The contribution to the economic development of the territories will be substantial.

This concludes my prepared statement. I will be delighted to answer any questions the Committee may have, Mr. Chairman.

**The Chairman:** Thank you, Mr. Barroll.

I am informed that that is the presentation on behalf of Rainbow Pipe Line Corporation. The 10-minute rule will be in effect, and I am now open to questioners.

**Mr. Rock:** The Rainbow company is incorporated provincially by Alberta?

**Mr. Barroll:** That is correct.

**Mr. Rock:** And are all the clauses in the bill through which you were incorporated the same as those in here? If there are differences could you explain what they are?

**Mr. Barroll:** I might leave this to Mr. Bredin who had the responsibility of preparing the charter.

**Mr. E. M. Bredin, Q.C. (Secretary, Rainbow Pipe Line):** Sir, there is no doubt that this charter is somewhat wider. The Alberta corporation is limited to the construction and operation of a pipe line and to the oil and gas business generally. This is perhaps somewhat wider. We modelled it more or less along the lines of pipe lines which have already secured charters. Otherwise, they are pretty much the same, with respect to capitalization and so on.

**The Chairman:** Mr. Lambert has a supplementary question. We do not usually allow too many supplementaries in this Committee, but Mr. Lambert is entitled to have this one.

**Mr. Lambert:** You indicated to Mr. Rock that there was a difference between this bill and the one incorporating the provincial company. I presume you are referring to subparagraphs (c), (d) and (e) of section 6 of your Bill, where you are seeking authority actually to an exploring and developing company, as well?

**Mr. Barroll:** Yes, Mr. Lambert. I think you will find that the charter requested here is in somewhat similar form to many others that have been requested recently. Undoubtedly it requests very broad authority to operate in

many fields, and I think that this has been the general practice in the past; however, it is our immediate intention to be involved only in the transportation business and in those matters pertaining thereto.

**Mr. Lambert:** I ask because the recent amendments to the Income Tax Act allow a pipe line company which has the powers of exploration and development to charge up the losses and expenses of exploration and development to pipe line profits. This, therefore, puts the principals of Rainbow Pipe Line Corporation in a different position from non-pipe line owning development companies.

**Mr. Barroll:** I do not see that it does, Mr. Lambert. I believe that if those companies chose to apply for a federal charter in this manner they would enjoy the same advantages that the owners of this corporation would. However, it is the usual practice, I think, to request powers as broad as possible when you are applying for them.

**Mr. Lambert:** Yes, but the hypothesis I am putting to you is a true one, is it not?

**Mr. Barroll:** That is true; but if it became an issue with this Committee, Mr. Lambert, or with the National Energy Board, I am sure that the principals of the company would be prepared to withdraw that from this Bill.

**Mr. Lambert:** May I ask a supplementary question?

**The Chairman:** I will call on Mr. Horner, and will put your name down for rotation.

**Mr. Horner (Acadia):** Is the Rainbow Pipe Line Company a public company or is it limited to just the three present shareholders?

**Mr. Barroll:** At the present time it is owned by three principal shareholding groups.

**Mr. Horner (Acadia):** It is not on the market at all?

**Mr. Barroll:** No. The stock of the owning companies is, of course, on the market.

**Mr. Horner (Acadia):** But that of the Rainbow Pipe Line Company is not?

**Mr. Barroll:** That is correct.

**An hon. Member:** Perhaps you can tell us who the owning companies are.

**The Chairman:** They have been mentioned already.

**Mr. Horner (Acadia):** Have you any intention of making the pipe line company a public one?

**Mr. Barroll:** I would say, of course, that we are currently applying, in the name of the presently-owning companies, in case there is any intention of going public. I have not been so advised by the officers or the board of Rainbow Pipe Line.

**Mr. Horner (Acadia):** If you are granted a charter to operate a pipe line into the Northwest Territories, into what is, no doubt as you say, an area which contains a great deal of oil but none, as yet, ready for delivery would you not be better advised to go public on such a speculative venture? I am looking at it from the public's point of view. You are presuming that if you receive this charter you can, in a sense, capture the transportation of all the oil out of the Northwest Territories?

**Mr. Barroll:** Of course this charter only entitles us to apply to the National Energy Board, and any other group has the same opportunity. In my talk I have attempted to express the idea that we are common carriers and that we guarantee to move anyone's crude at a published tariff rate.

Furthermore, we are all producing companies and that is why we have an interest in low tariff crude. We want to make this crude competitive on foreign markets.

**Mr. Horner (Acadia):** If you are granted this charter will your rate be regulated by the National Energy Board?

**Mr. Barroll:** Yes, sir.

**Mr. Horner (Acadia):** I have no further questions at the moment, Mr. Chairman.

**The Chairman:** One thing I should point out to members of the Committee is that when asking questions, they should differentiate between the Rainbow Pipe Line Company, which is in existence, and the proposed Rainbow Pipe Line Corporation so that there may be no confusion on the part of anyone reading the transcript of the evidence. The Bill deals with the proposed incorporation of Rainbow Pipe Line Corporation, which is not in existence. Rainbow Pipe Line Company is already in existence under provincial charter.

**Mr. Groos:** Mr. Chairman, I thought that the point raised by Mr. Lambert was a very interesting one, in that what, in effect, we are being asked to do is to allow the companies,



under the revised income tax regulations, to charge off losses in one section of their activity against profits in another. This puts them in a very advantageous competitive position. We have all seen examples of that, I am sure, and I do not need to go into it in any great detail.

I realize what we are doing here. By passing this Bill we are, in effect, giving it our blessing before the company goes before the National Energy Board. Is that right? We are giving it our blessing and we are establishing a monopoly in this area, because any other company coming in will find it progressively more difficult to compete with the combined corporation and company which, growing as it is, will find it increasingly easier to provide the capital required to extend their operations further and further into the North than will the company which is just starting out.

We have to be very careful that we do not give it powers that are too wide, or, if we are going to give it such powers as are asked for, we must be very careful that we know what we are doing.

That is by way of being an observation.

**The Chairman:** Are you leading up to a question, Mr. Groos? It is a very interesting observation, but have you a question?

**Mr. Groos:** I am really trying to distinguish in my own mind what we are being asked to do here. I have not really examined the Bill very carefully.

I found Mr. Barroll's statement very interesting. Am I correct in what I have said so far, Mr. Barroll?

**Mr. Bredin:** May I answer that, Mr. Chairman? One of the reasons for our asking for this power to go into the oil and gas business, as it were, and so make use of Section 83 of the Income Tax Act, which permits the writing off of drilling and development expenses against income, is with the ultimate purpose of reducing the profits of the pipe line and thereby being able to reduce the tariffs. This puts one in a better position, perhaps, but the ultimate idea is to have tariffs as low as possible, and these lower tariffs will accrue to the benefit of other producers in the area.

It is not the intention to operate this pipe line as a going concern in the sense of making a profit in itself. It is to provide a vehicle to get the oil out of this area at a low cost to the producers. To that extent it is in the interest of the producers to have this section in the Bill.

**Mr. Groos:** I can see the advantages of putting in the pipe line. You have said that the purpose of the Income Tax regulations is to provide oil drilling companies an opportunity of writing off...

**Mr. Bredin:** We propose to operate this with a minimum of profit, and should there be some small profit it can be written off by doing drilling or exploration work and thus there will be no tax payable. That being so, you can ultimately lower your tariffs and the benefit of this will accrue to the producer. If you use your money to pay income tax you cannot lower your tariffs to the same extent as you can otherwise.

**Mr. Groos:** I would like to see how that reads in the transcript. It does not seem to add up. Would you like to move along?

**The Chairman:** No; if you have some questions you still have some time.

**Mr. Groos:** We ought to know exactly what we are doing here. I was very interested in hearing Mr. Barroll say that one would naturally start by asking for as much as one could get. I would like to consider that and take some advice on it later. I will not proceed with any further questioning at this point.

**The Chairman:** Mr. Blair wishes to speak on this point.

**Mr. Gordon Blair (Parliamentary Agent):** Mrs. Rideout and gentlemen, we are dealing with a section which was inserted into the Income Tax Act in 1962 with the purpose providing a greater variety of funds and more opportunity for oil exploration. Prior to 1962, companies which were in the business of exploring for oil could deduct a certain amount of their exploration expenses from their revenues for the purpose of computing income tax. Some time before 1962 all these sections were amended to provide that mining companies, for example, could go into oil exploration, and vice versa. The whole scheme of the Act was to provide more money for this kind of exploration.

In 1962, by section 83A (3b) this was extended to pipe line companies. Many pipe line companies, mainly the ones which are incorporated under provincial jurisdiction and have the power to do so, have taken advantage of it, and some federal companies have been able, either by an amendment to their charters, or by new charters, to get this pow-

er included, but it is merely a power which can be exercised by the company as long as these special provisions are in the Income Tax Act.

A further comment to be made at this stage is that the whole subject of the Income Tax Act has been thrown into the public domain by the Carter Report, and it will be a matter for parliament, at some stage, to determine whether and to what extent this pattern of exemptions will continue. All that the Company has tried to do in asking for this power is to put itself in basically the same position as are most pipe line companies in Canada now.

**Mr. Groos:** Mr. Chairman, perhaps I may be permitted to ask one further question.

Could we have some breakdown of the division among the three parties concerned? Is it the Banff-Aquitaine Group that forms one section, Mobil Oil Canada another and Imperial Oil Limited another? In the case of the Banff-Aquitaine Group, could you give us some idea of how these companies share the present company and presumably will share in the proposed company? Imperial Oil Limited and Banff Oil are public companies incorporated in Canada. The Aquitaine Group, I gather, is not. Is that correct?

**Mr. Barroll:** This is Aquitaine Canada Limited.

**Mr. Groos:** Is that a public company?

**Mr. Barroll:** I believe not. However, the parent company's stock is listed on the Bourse de Paris, I believe.

**Mr. Groos:** And Mobil Oil?

**Mr. Barroll:** Mobil Oil Canada Limited is listed on the Canadian Exchange.

**Mr. Groos:** Could you give us the percentages of their participation?

**Mr. Barroll:** Yes, sir. Imperial Oil Limited has 33½ per cent equity, Mobil Oil Canada Limited 33½ per cent, Aquitaine Canada Limited 30 per cent and Banff Oil Limited 3½ per cent interest in Rainbow Pipe Line Company Limited.

**Mr. Groos:** Thank you, Mr. Chairman.

**Mr. Lambert:** It is a fact that Aquitaine Canada Limited does control Banff Oils?

**Mr. Barroll:** My knowledge, sir, of the stock ownership of Banff Oils is such that I could not answer authoritatively.

**Mr. Lambert:** It has effective control of Banff Oils?

**Mr. Barroll:** The last figure I saw showed that they had 44 per cent of the stock of Banff Oils.

**Mr. Lambert:** Are there other producers in the area exploring for oil apart from the three who are the principals of this proposed company?

**Mr. Barroll:** Yes, there are a great many of them, Mr. Lambert. I would say that nearly all of the companies operating in Alberta either have an interest there or wish they had.

**Mr. Lambert:** You say that you will act as a common carrier. Of course, if you do get a franchise to put in a pipe line you must act as a common carrier.

**Mr. Barroll:** We are currently acting as a common carrier, and would do so.

**Mr. Lambert:** I was interested in the logic that Mr. Bredin was using because frankly I find it the reverse of mine. If there are profits in a pipe line company against which it can charge development and exploration expenses it is to the benefit of the producer to be able to charge off those profits. Those profits of the pipe line are, of course, derived from carrying the producer's own crude as well as that of those on the market who come in under the common carrier. Therefore the profits are provided by your producing competitors as well as by yourself.

Therefore, to say that you are going to have as low a rate as possible for your common carrier business for your competitors in the producing field is not quite in accord with the facts.

**Mr. Barroll:** Perhaps I might elaborate on that statement a little, Mr. Lambert. As you probably know, the oil business in Alberta currently has a 33 year life of reserves at current rates of production. In addition to this, it is the most successful area in North America of recent years in relation to rate of reserves found. As producers we are very interested in putting a larger volume of crude into all markets, both Canadian and export. Because of this, we recognize that our crude has to be competitive in the market place. It cannot be competitive if it is high-priced.

The characteristics of the Rainbow production is that if a company is fortunate enough to have a good position in ownership, the crude can be produced relatively cheaply. We



are also interested in having it transported cheaply so that it will be competitive and cause our markets to grow. We are more interested in seeing a greater possibility of expanding our revenue by increasing the volume of production than in increasing the price in the market place.

I think that summarizes our position.

**Mr. Lambert:** I am not disagreeing with you, but I still maintain that what Mr. Bredin said was not quite the explanation that Mr. Groos wanted.

I realize what your objective is, but we want to point out precisely what is a possible result. We do know that there are other federally-incorporated companies which have the power, are actually in the area and have small pipe lines there. Therefore, if Rainbow Pipe Line Corporation were not incorporated it would not preclude the construction of a pipe line.

**Mr. Barroll:** I beg your pardon, sir. What was that last statement?

**Mr. Lambert:** If Rainbow Pipe Line Corporation were either not proposed, or were not to be incorporated, or were not to obtain from the National Energy Board the necessary permit for the construction of a pipe line, it is a fact that other companies could establish pipe lines in the area?

**Mr. Barroll:** They have the right to apply.

**Mr. Lambert:** The only thing is that they are independents in the pipe line business.

**Mr. Barroll:** No; everyone has the right to apply, Mr. Lambert.

**Mr. Lambert:** The point is that in this development the consortium of three dominates the production and the exploration.

**Mr. Barroll:** I do not think we can say that the three companies dominate production or exploration. Speaking in a very general way, without statistics at hand to back me up, I would say that between the three companies involved their ownership of leased and reservation lands might be perhaps 20, 25 or 30 per cent of the total that is available in the area.

**Mr. Lambert:** That is, of the good land? I mean that in the sense that you can have big spreads but you know that a lot of it is muskeg with not much oil in it.

**Mr. Barroll:** I might say that the successful companies in the Zama Lake area do not include any of the applicant companies. In

that area we have Dome Oil, Provo, Hudson's Bay Oil and Gas, and, I believe, British American. I do not believe, to date, you will find one of the applicant companies with any interest in Zama Lake, to my knowledge. If they have, it would be in the neighbourhood of one or two per cent; therefore, I do not think it is a fair statement to say that they are dominating the industry.

**Mr. Lambert:** It is my view that if, in the position that you occupy in the field at the present time, with your provincial pipe line, you were to get a federal pipe line it would not take too much to put you in the position that could dominate this field. This bill could give you a very dominating position because of the provision of section 6. I am not against that, but I want you to realize that we know it. The law allows it to you, but I think it should be recognized that that fact does exist.

**Mr. Barroll:** I would also make the point, Mr. Lambert, first of all, that I know of no arrangement that does not currently exist. In the Rainbow area it is well known that Banff-Acquitaine and Mobil Oil own land jointly. I will assure you that we have no arrangement outside of the immediate area in which we already own lands to expand this approach into any other area.

Furthermore, I know of no general arrangement—and I do not believe that one exists—to form a consortium of these companies to enter into the exploration and producing business.

As I say and as has been pointed out here, the insertion of that specific clause to which you take exception was made here because it is put in every bill that comes before the Committee so that applicants can take advantage of the opportunities afforded by the amendments to the Income Tax Act.

Furthermore, as I have already stated, if it became of concern to this Committee it is such a small part of the issue at stake that I am sure we would withdraw that clause.

**Mr. Lambert:** I do not say that I object to this but we should become interested in it and know what we are doing. I do not think that you are in a position to give this Committee an undertaking that future action by the consortium, or group, would be completely barred, and I do not think anyone would want you to say that. But we must know what we are doing.

**Mr. Bredin:** Perhaps I ought make one comment about competing pipe lines. I do not

think that there is any other pipe line in a position to take this oil to eastern markets, to connect with Interprovincial Pipe Line, where our main markets lie and will lie. We are trying to get into the Chicago market and all the available market will lie to the east.

You mentioned that there were other lines available. There is no other line available to connect with Interprovincial Pipe Line which connects with the markets we desire to get into and those in which we are now selling our oil.

**Mr. Lambert:** There are other pipe line connections. Admittedly, they would have to do considerable construction to get down to that point, but it is possible.

**Mr. Cantelon:** I am very interested in the comment that Mr. Bredin has just made and also in Mr. Groos' statement that he thought we ought to know what we were doing.

I am interested in a rather different problem arising from the very broad powers conferred upon the company, particularly by clause 6. It seems to me that this gives you the power to operate not only in the Northwest Territories area in which you say you want to operate, but also in any other area in Canada. We have no guarantee that you would not seek to do that, although there are, of course, economic factors, as I very well understand.

Another thing that concerns me is that so far as I can see there is no limitation on the kind of products that you want to move. This bothers me even more than the broad area of powers that seems to be inherent in the bill. In the first place, what guarantees are there that your pipe lines will be confined to northern Alberta and the Northwest Territories? Secondly, why do you consider it necessary to have in section 6 (a) at line 34, the reference to the storing and delivering of any substances capable of being transmitted or transported by pipe line, and so on. You then go on to mention hydrocarbons generally, but this does not limit you. You could move solid substances.

There is another bill that will be before us, dealing with a solids pipe line. It seems to me to be inherent in the powers that you are seeking that you will have the right to move solids without ever approaching Parliament again.

You will notice that there are actually two questions there.

**Mr. Barroll:** Yes, sir. Perhaps I may be able to answer both of them.

In the first place, as we have stated, it is common practice to apply for relatively broad powers so that the company is incorporated to do these things, but this does not mean that we are authorized to do them. We still have to get approval from the National Energy Board to build any pipe line and at that time presumably any application on our behalf and by any other company would be heard. Although this entitles us to go into this type of venture it does not entitle us to act. I think that is one significant point.

As a matter of prudence the solicitors for, and the management of, Rainbow Pipe Line Company deemed it advisable to get powers as broad as this Committee saw fit to grant, so that they would be in a position to move into any area of transportation through pipe lines.

Perhaps you will now let me say a word about the pipe lining industry.

First of all, the technology is changing very rapidly. We cannot foresee now precisely where it is going to end.

On the breadth of the hydrocarbons application here I might say that, for example, butane, a liquid petroleum product from refineries and gas plants, is currently being moved through crude oil pipe lines. This is now common practice. A few years ago it was not. Therefore had we applied only for crude oil we would have been precluded from moving butane or other petroleum products through the line.

It is not inconceivable that there may be some sort of field upgrading in the future whereby refinery products can be moved. Of course, in the area of solids pipe lining this may be a long way down the road, but, nevertheless, if you gentlemen see fit to pass it we would like to be in a position to venture into this field at some time in the future if it becomes advisable to do so. It certainly is not our current plan. I do not know of any solids in the area that, in any realm of feasibility, can be moved to the market through pipe lines today.

**Mr. Cantelon:** That is why I asked the question. Speaking personally, I do not agree that we ought to give you the right to move solids. It is something that broadens the field of transportation so much that it should again come before this Committee before such powers are granted.



**The Chairman:** Mr. Cantelon, I understand that solids pipe line movements now come under the authority of the Canadian Transportation Commission and the new Transportation Act. They would have to make an application there, anyhow.

**Mr. Horner (Acadia):** There is no such thing. There is no commission as yet. When is it going to be proclaimed?

**Mr. Cantelon:** There is a question whether it ever will be proclaimed

**The Chairman:** Perhaps I should say, then, under the new Transportation Act. Have you finished, Mr. Cantelon?

**Mr. Cantelon:** Yes; those were the two questions I had in mind.

**Mr. Byrne:** Mr. Bredin, I was interested in your statement, in reply to Mr. Lambert, about the desirability of moving the crude more or less at cost. Do regional pipe line companies or corporations, then, differ from the Trans Mountain Pipe Line or Inter-provincial Pipe Line in their financial structure? What is the relationship?

**Mr. Barroll:** This being a policy matter perhaps I might answer that question. There is no basic difference. It relates, though, to the efficiency of the industry as a whole. I can certainly tell you how the price structures are normally arrived at. It is on essentially the same base as provided for in the Public Utilities I.T. Transfer Act, where you make a certain rate of return on your unamortized capital. This is the general basis in computing rate structures.

I believe there are powers under the Public Utilities Act in Alberta, for the regulation of pipe line companies. Is that not correct? Their means of analyzing costs are on this basis.

Does that answer your question sir?

**Mr. Bredin:** If I might supplement that, Mr. Chairman, Trans Mountain and Inter Provincial are pipe line corporations engaged solely in the business of transporting oil, whereas this is a line constructed by producers as a facility. Profits are not the motive in this line, whereas they are in the other.

**Mr. Byrne:** That is the point that I wished to make. It was suggested earlier that this company may become public if the interests of the three producing companies are paramount in the construction of the pipe line. That is if profit was not the chief aim it

would hardly be appropriate to become public and then use the profits of the pipe line to finance your further exploration or production in the field. Is there not some difficulty there?

**Mr. Barroll:** I think not. First of all, on financing and, perhaps, public equity, it is our feeling that the best interests of the industry as a whole relate more to low rather than high transportation costs. Certainly, by dint of great pressure, it is conceivable that very high transportation rates could be charged here and that a company with no other interests could charge high transportation rates and probably make a very good profit, but I question very much the benefits of that to the industry or to the people of Canada.

**Mr. Byrne:** Well, that is a good reason for not going public, then?

**Mr. Barroll:** There are, perhaps, two ways in which public participation could be considered in such a venture as this. One, of course, is by equity share sale and the other is by the issuing of bonds for financing. Of course, bonds have a guaranteed rate of payment and this would appear to...

**An hon. Member:** Mr. Chairman, I cannot hear.

**Mr. Barroll:** I beg your pardon, sir. Bonds would have a guaranteed rate of payment and these issues would not arise under those circumstances.

On there being a conflict of interest relative to the application we have made and the tax law, once again I must reiterate that this was put into the bill as a matter of prudence to enable the company at some time, as do all companies, to take advantage of the benefits which are provided to such companies by federal law.

**Mr. Byrne:** I am not suggesting that it should not be there. I am merely trying to clarify it.

**Mr. Barroll:** I think that it would perhaps have been imprudent of us, as representatives of the shareholders, not to have this provision in our application.

**The Chairman:** Mr. Olson?

**Mr. Olson:** Mr. Bredin, I am amazed at your statement that the motivation in setting up this pipe line is not profit but for the purpose of providing a market for the three companies involved and that they would, therefore, be willing to invest all of the

money necessary to build this pipe line and perhaps transport oil for all of their competitors in the area at the same no-profit rate. I just do not follow that argument.

**Mr. Bredin:** The profit, sir, lies in the companies themselves. That is where the profit is located. The companies wish to make the profit in their own operations, as companies, rather than in the pipe line.

**Mr. Olson:** Yes; but Mr. Barroll has just told us that these three companies have only 20 per cent of the total available land and, therefore, of the total potential production in the area.

**Mr. Barroll:** I might perhaps intervene here, if I may. Certainly our objective, here as in any other project we undertake, is to make a profit. We are also pointing out that we intend to make a reasonable profit from this pipe line—and I am sure that you may now ask me to define “reasonable”. However, the point that I wish to make is that we certainly intend to run a profitable company; but as producers our best interests do not lie in making exorbitant profits from this pipe line.

**Mr. Olson:** You have about 20 per cent of the area in the Rainbow Field. Am I correct in my understanding?

**Mr. Barroll:** No, sir. In the immediate Rainbow Field I would say that the companies, broadly speaking, have perhaps 60 to 75 per cent.

**Mr. Olson:** In the Rainbow Field.

**Mr. Barroll:** In the Rainbow Field.

**Mr. Olson:** How much in the Zama Field?

**Mr. Barroll:** Very little.

**Mr. Olson:** Very little?

**Mr. Barroll:** Perhaps 1 or 2 per cent. I do not know of any.

**Mr. Olson:** To what were you referring, then, when you said 20 per cent? Have you got 20 per cent of what is available in the Northwest Territories?

**Mr. Barroll:** No, sir; I said that in the broad general area the lease lands and the reservation lands that the three groups have would amount to perhaps 20 per cent of the total available.

**Mr. Olson:** In Alberta, or where this pipe line is going to?

**Mr. Barroll:** I would say in Alberta; and a great deal less in the Territories. Of course, this answer, I admit has to be confined by the area we are taking under consideration.

**Mr. Olson:** You do not need any authority from this Committee or from Parliament to haul all the oil in Alberta to Edmonton. It is only when you cross the border into the Northwest Territories that this Act is applicable. Is that not right?

**Mr. Barroll:** I think that is an excellent point, sir.

**Mr. Olson:** Therefore, I am wondering about the wisdom of granting a charter to a company that would be at least partial to three of the main producing companies in the area; that would not, in fact, hold a major portion of the potential producing land. I am talking about this from the point of view of public interest in the Northwest Territories in view of the fact that it has been stated before us that you intend to keep it as a private company and not offer this on a broad public basis; so that it would be a company that was primarily a common carrier rather than primarily an outlet or market for a very small part of the total potential production.

**Mr. Barroll:** Sir, let me assure you of several points. First of all, the member companies of Rainbow Pipe Line Company are not in a preferential position in any manner, shape, or form with respect to producing or exploration activities under the terms of this or any other bill that I know of.

Secondly, in the Northwest Territories there are, I would guess, probably 500,000 square miles of potential exploration lands. It is inconceivable that these companies could have any sort of comprehensive grasp of this type of territory.

Furthermore, we are talking about the present status of Rainbow Corporation as we currently envisage it and as we are currently applying. I hope that I have made no statement that implied that there is anything in this bill that would prevent the current ownership being modified to include other oil companies or the public, if that should be considered necessary. All I am saying is that I have not been told by the board of Rainbow Pipe Line Company or by its officers that this was the intent; and we do not want to mislead this Committee by saying that we have the immediate intention of so doing.



**Mr. Olson:** The thing I am wondering about is whether or not it should be an independent pipe line company that is primarily interested in being a common carrier rather than one without perhaps any special interest in, or giving special privilege to, any particular producing company, except that three of them own it. This is sometimes rather important.

**Mr. Barroll:** First of all, let me state that, as producers, our principal interest is in low-cost transportation. I think I have said that several times. If we had no interest in production it would appear to me that our principal interest might be in high-cost transportation.

Our position here is quite clear. We intend to operate on published rates and essentially on a public utility-rate base calculation of terms. These rates are subject to examination by the regulatory bodies and if they are deemed to be unfair why I am sure that we can be called to account for it.

These are all responsible companies which, with the sole exception of Banff Oil Company, operate in many areas of the world. As such I do not see that we can disregard the broader issues, nor would I believe that it was the intent of any one of these companies to create a condition where, if I may use your phrase, there would be some possibility of monopolization.

**Mr. Olson:** That is all, Mr. Chairman.

I feel a little better now that I know that this company is going to be interested in the transportation of oil and has this as its concern rather than simply being a market outlet for certain selected companies that have only about 20 per cent of the total value in there. This was my understanding of Mr. Bredin's remarks and it disturbed me a little, because I think we have a responsibility to see that transportation out of the area is not for any particular company.

**Mr. Barroll:** This is our objective.

**Mr. Rock:** I am always interested in Canadians participating as shareholders. How many Canadians own shares in the four companies so far involved and what is their percentage in number and value?

This is important because these four companies are going to be the principals of this particular company and they are asking for a Canadian charter with wide powers of exploration. I, and also possibly some of the other members, would like to know the per-

centage of Canadian ownership in the four companies involved?

**Mr. Barroll:** I regret to say that I cannot give you any accurate statistics.

**Mr. Rock:** Could you give us an approximate idea at some time today?

**Mr. Barroll:** Yes, I can do that.

**Mr. Horner (Acadia):** Who owns Mitsue Pipe Line and why did you feel it necessary to build your own in the last 180 miles?

**Mr. Barroll:** Mitsue Pipe Line, sir, is owned one-third each by Home Oil Company, Imperial Oil Company and Chevron. It is a pipe line that is only six and eight inches in diameter...

**Mr. Horner (Acadia):** Oh, I see.

**Mr. Barroll:** ...and was designed for production from the Nipisi-Mitsue Field. It has a maximum capacity of approximately 45,000 barrels a day. I think it is obvious that it could not move that crude plus the 55,000 that it is moving...

**Mr. Horner (Acadia):** Does your pipe line run parallel to it?

**Mr. Barroll:** Essentially parallel.

**Mr. Horner (Acadia):** Is there any pipe line other than yours running up into the Rainbow Field?

**Mr. Barroll:** Not at this time, sir.

**Mr. Horner (Acadia):** You have stated that so far as you know there is no real intention at the moment of becoming now a public company?

**Mr. Barroll:** Not that I am aware of, sir.

**Mr. Horner (Acadia):** Is it not a fact that of the three companies which own Rainbow Pipe Line Company two are basically controlled by the United States and the third by France?

**Mr. Barroll:** I could not speak to that, sir. I think they are controlled by their shareholders.

**Mr. Horner (Acadia):** Are not the shareholders of Imperial Oil Limited and Mobil Oil Canada Limited mostly American?

**Mr. Barroll:** I would believe so, sir, yes.

**Mr. Horner (Acadia):** And is not a majority of the Acquitaine group controlled by a corporation of the French Government?

**Mr. Barroll:** I could not answer that. Their shares are on the Paris Bourse. I would presume that they are controlled by French shareholders, yes.

**Mr. Horner (Acadia):** As representatives of the people of Canada why should we give you, *carte blanche*, the power to move into the Northwest Territories and be the sole transportation company—in effect, a monopoly in that area? What justifies your being here? Why should we not give it to a corporation controlled by Canadians, if they want to set one up? There is no actual need at the moment for a pipe line into the Northwest Territories. There is no oil up there that has to be moved tomorrow, is there?

**Mr. Barroll:** Tomorrow?

**Mr. Horner (Acadia):** By that I mean within the very near future.

**Mr. Barroll:** As I have attempted to explain, sir, the trend of discovery is in that direction and if the resources in this area are to be developed transportation will be necessary.

**Mr. Horner (Acadia):** The first pipe line into the Northwest Territories would, in essence, have a captive market. It would have the oil to transport out of there. Is that not so, sir?

**Mr. Barroll:** I am not aware of any regulation preventing two pipe lines from operating in the Northwest Territories.

**Mr. Horner (Acadia):** I know there is no regulation. I am speaking from an economic point of view. It would naturally follow that the first pipe line in there would more or less capture the market for the transportation of oil.

**Mr. Barroll:** They probably would be in a position to move crude cheaper than anyone else and as long as they did so I think it would be proper that they should have a right to move it. No producer has any obligation to sell his oil to any pipe line. As has been indicated, ownership in the Northwest Territories should be broad enough to make possible the existence of more than one pipe line so that producers would be able to avoid being committed to one.

**Mr. Horner (Acadia):** Would it be possible, in your view, for another pipe line company now to hook on to your pipe line at its existing end, which is in the Zama Lake field, I believe?

**Mr. Barroll:** It is feasible and possible. However, it may not be the best practice, economically speaking, for reasons which I have mentioned.

**Mr. Horner (Acadia):** You are now transmitting about what percentage of the oil used in Alberta? Is it something like eight per cent?

**Mr. Barroll:** Yes, I think that is a very accurate estimate.

**Mr. Horner (Acadia):** What would you estimate the existing pipe line would carry? You are now putting through 55,000 barrels per day? What is its capacity?

**Mr. Barroll:** Its capacity, by installing booster pumps along its length, is in the vicinity of 265,000 barrels per day. To exceed that capacity the line would have to be looped.

**Mr. Horner (Acadia):** So that you have ample room for expansion into the Northwest Territories or even into any other field in Alberta for that matter?

**Mr. Barroll:** Our line was designed optimistically.

**Mr. Horner (Acadia):** I have no objection at all to clause 6, the exploratory portion of the Bill. In fact, I agree with you that you would have been less than prudent on behalf of your shareholders had you not included it. It is just good sense to have it in there. However, if you have any intentions of becoming a public company I would prefer that you allow Albertans and Canadians to participate in what is, in a sense, this monopolistic charter that you are asking for.

**Mr. Barroll:** I do not know whether or not that is a question, but I will repeat that there is nothing to preclude our bringing in additional equity capital. My only statement has been that I know of no current intention to do so.

**Mr. Horner (Acadia):** As a representative of the people I would feel much more favourably disposed towards your Bill if you could announce that you had such an intention.

**Mr. Nowlan:** Mr. Chairman, Mr. Horner has covered one point very well. My question, which is directed either to Mr. Barroll or to Mr. Bredin, is whether any consideration has been given to developing a pattern for this pipe line similar, for example, to the Alberta Gas Trunk Pipe Line where participation in the share capital has been made available either to Albertans or Canadians. You have said that this is not precluded by the Bill, that it is just not in the present plans.

I think the question is pertinent because both of you have said that you are not really interested in making money from the pipe line; that you have got the oil and that basically you are just a common carrier of the crude and the oil at rather pretty basic cost. This makes the question even more pertinent than perhaps it otherwise would be.

**Mr. Barroll:** Let me reiterate something. We are interested in making a reasonable profit.

**Mr. Nowlan:** This is natural.

**Mr. Barroll:** Secondly, because of our position as producers and our interest in low-cost transportation we want to see volume expanded. We cannot have that unless we produce a competitively-priced product to markets, and high transportation costs mitigate against this.

Thirdly, regarding the relationship with Alberta Gas Trunk Pipe Line, this was a pipe line incorporated in the Province of Alberta to move gas to the borders of Alberta and, in the process, to the exporting pipe lines. As a consequence, the terms and conditions under which it was to operate were relatively well known. The reserves were there; the markets were there; Trans-Canada Pipe Lines had been informed. Economically speaking, it was pretty much of a cinch, if you will permit me to say that. As a consequence, the decision to allow the public of Alberta to participate gave them an opportunity to invest in a sure thing.

I definitely would not say that the type of venture that is necessary to extend the pipe line into the Northwest Territories to pick up crude can be considered a sure thing. As a matter of fact, if it is going to be timely it is almost certain that it will be risky as well.

**Mr. Nowlan:** I think that is an answer. I wanted to know what were the different factors, and you have given an answer which certainly paints a different picture. In other words, this is much more speculative and much more of a risk that it was in the situation of the Alberta Gas Trunk Line?

**Mr. Barroll:** Sir, when we decided to lay the 240 miles of 20-inch pipe line from the Rainbow Lake area to connect with the Nipisi pipe line terminal at Mitsue there were only five wells completed. All the rest were speculative. A decision to invest \$28 million was made based on results from five holes in the ground.

**Mr. Nowlan:** That brings me to my next question. Section 6 of this Bill has been the subject of comment by several members of the Committee. My question is directed to your powers as the company, Rainbow Pipe Line Company, that built the 240 miles that you set out and which you have just mentioned. Has that corporation, which is a provincial corporation, powers different from the ones that have been particularly mentioned by Mr. Lambert, that is, section 6 (c), (d) and (e), or have you asked for the same general, wide power to avail yourself of the Income Tax Act?

**Mr. Bredin:** Mr. Chairman, I am secretary of the company and I am sure, although I do not have the provincial charter with me, that these two contentious items could be carried out by the provincial company, both in the conduct and transportation of solids: and drilling for oil and gas is also permitted under the provincial charter.

**Mr. Nowlan:** In other words, you are asking for no more to go across the border into the Northwest Territories than you already have under your provincial charter?

**Mr. Bredin:** That is true.

**Mr. Nowlan:** In other words this proposed company is not going to grant any tax advantage which your provincial company does not enjoy at the present time?

**Mr. Bredin:** That is true.

**Mr. Nowlan:** My next, and, perhaps, last question I should probably direct to Mr. Blair. Does he know whether any pipe line companies, caught in this transition created by the amendments in 1962, have applied either to provincial bodies or to the federal body which, I understand would be this Committee to bring themselves within the tax privilege given by that 1962 amendment and been turned down?

**Mr. Bredin:** I do not know the answer to that.

**Mr. Blair:** Mr. Nowlan, I think there was one company—and I hesitate to give the name because my memory may be at fault—which, after the passage of the Income Tax amendments in 1962, came back to Parliament and asked for an extension of its charter powers.

**Mr. Nowlan:** Printed within the Act?

**Mr. Blair:** Yes.



**Mr. Nowlan:** What happened?

**Mr. Blair:** They got them.

**Mr. Nowlan:** This discussion started to develop along the income tax line, which may or may not be germane to your general problem. My concern is whether you are going to develop such a tax advantage in the federal company that it becomes the actual working company. You made some distinction about your provincial company.

**Mr. Brewin:** That was an academic exercise that I got into. I am sure that they will probably never be in the oil and gas business.

**Mr. Nowlan:** Thank you. That is all, Mr. Chairman.

**Mr. Horner (Acadia):** Mr. Barroll, could you give the Committee some idea of the relationship of your pipe line to others? You mentioned Trans-Mountain Pipe Line and the Interprovincial Pipe Line. When your pipe line is completed it will be approximately 471 miles long. Is there any other non-public pipe line in Canada that is anywhere near that length?

**Mr. Barroll:** In total trunk line system, I would say no.

**Mr. Horner (Acadia):** You are now handling eight per cent of the oil marketed daily in the Province of Alberta. Is there any other non-public pipe line handling anything like that amount of oil?

**Mr. Barroll:** Yes, I believe there is. In Alberta we have Britam Oil Pipe Line Company Limited which, I believe, is essentially wholly owned by British American Oil Company, which handles a considerable volume of crude. We have Producers Pipe Line in Saskatchewan which handles a large volume of crude.

**Mr. Horner (Acadia):** Who owns Producers Pipe Line?

**Mr. Barroll:** It is owned by a group of about ten oil companies.

We have Peace River Pipe Line which is also owned by a group of seven or eight oil companies.

**Mr. Horner (Acadia):** And it is handling quite a large volume of crude?

**Mr. Barroll:** That is correct. They have quite a lengthy system. I would say that Peace River's trunk line is from 300 to 400 miles long.

**Mr. Horner (Acadia):** You do not have that one on your map?

**Mr. Barroll:** No; but I can quite readily indicate the route that it takes. The Peace River pipe line comes down west of Edmonton and takes a swing up. This is, in fact, the Peace River pipe line shown here. It then cuts back across the north of Slave Lake up into this area here.

As a matter of fact, when we were short of capacity Peace River Pipe Line did move some crude oil that was delivered from Rainbow Pipe Line, which Mitsue could not handle.

Clauses 1 to 11 inclusive agreed to.

**The Chairman:** Shall the Preamble carry?

**Mr. Rock:** Just a moment; I would like to get some information before we pass this Bill in Committee, Mr. Chairman. I want information on who are the shareholders of these companies and on how many Canadians own shares in the four principal owner-companies.

**The Chairman:** Mr. Rock, would an undertaking to have that supplied to you be satisfactory?

**Mr. Rock:** No, not necessarily, because in considering the principle behind giving this company wide powers a lot hinges on whether a certain number of shares should be sold to the public rather than be owned by these four individual companies.

**The Chairman:** Well, if you are objecting I will have to call a vote.

**Mr. Horner (Acadia):** The officials have not denied the fact that Imperial Oil and Mobil Oil are American-owned and that the Acquitaine group is French-owned. If the government, as it proclaims, is working in the interests of the Canadian public at this time—

**The Chairman:** Let us not get into that, Mr. Horner. Order, please. This is a private member's bill, Mr. Horner, as you know. Mr. Horner, you are getting out of line now. You are free to vote against it.

**Mr. Horner (Acadia):** I may just do that.

**The Chairman:** That is your prerogative.

I will ask for a vote. Those in favour of the Preamble carrying, please signify? Those opposed? The vote is tied. The Preamble carries.

**Mr. Horner (Acadia):** Wait a minute. Did you vote, Mr. Chairman?



**The Chairman:** I am just casting the deciding ballot.

**Mr. Horner (Acadia):** All right; so long as the Committee understands that.

Preamble agreed to.

Title agreed to.

**The Chairman:** Shall I report the Bill without amendment?

**Some hon. Members:** Agreed.

**The Chairman:** Gentlemen, that carries the Bill.

Before we adjourn I call your attention to the agreement, reached by the Committee at its organization meeting, that the Committee sit Thursday and Friday. It will sit on Thursday at 10 o'clock to deal with the C.N.R. 1966 Annual Report and Budget. I have been informed that the C.N.R. officials will present a short film, lasting about 20 minutes, giving

an analysis and review of the year 1966. Questioning will open after that. Therefore, I would ask all members, in accordance with that agreement, to set aside next Thursday, starting at 10 o'clock, and, if necessary, Friday.

May I have a motion to adjourn?

**Mr. Olson:** Mr. Chairman, do we have any further meetings today?

**The Chairman:** No, there are no more today.

**Mr. Jamieson:** Where will the meeting be held on Thursday, Mr. Chairman?

**The Chairman:** We are trying to get the Railway Committee Room in order to provide enough space for the showing of the film.

It is moved by Mr. Rock, seconded by Mr. Lessard, that this committee adjourn until 10 o'clock on Thursday morning.















OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations  
and/or a translation into English of the French.

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public by subscription to the Queen's Printer.  
Cost varies according to Committees.

Translated by the General Bureau for Trans-  
lation, Secretary of State.

LÉON-J. RAYMOND,  
*The Clerk of the House.*

HOUSE OF COMMONS  
Second Session—Twenty-seventh Parliament  
1967

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Government  
Publications

STANDING COMMITTEE  
ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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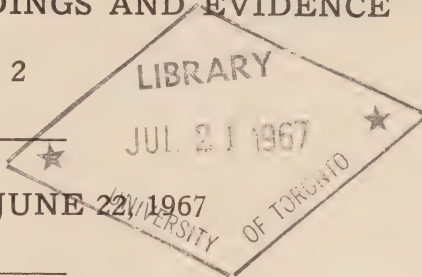
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

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THURSDAY, JUNE 22, 1967

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RESPECTING

Annual Reports of Canadian National Railways and the Canadian National Railways Securities Trust, and the Auditor's Report to Parliament for 1966 in Respect of the Canadian National Railways.

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WITNESSES:

*From the Canadian National Railways:* N. J. MacMillan, President and Chairman; R. T. Vaughan, Vice-president and Secretary; W. C. Bowra, System Vice-president; J. L. T. Toole, Vice-president, Accounting and Finance. Representing the Auditors Touche, Ross, Bailey and Smart: Mr. Howard Ross, Mr. L. E. Boissonnault, Mr. D. S. Wells.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Chatwood,  
Mr. Clermont,  
Mr. Crossman,

Mr. Deachman,  
Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. McWilliam,  
Mr. Nowlan,  
Mr. O'Keefe,

Mr. Olson,  
Mr. Orlikow,  
Mr. Pascoe,  
Mr. Rock,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—24.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*



## REPORT TO THE HOUSE

FRIDAY, June 23, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### THIRD REPORT

Your Committee has examined the Annual Reports of the Canadian National Railways, the Canadian National Railways Securities Trust, and the Auditor's Report for 1966 in respect of the Canadian National Railways and commends them to the House.

A copy of the relevant Minutes of Proceedings and Evidence (*Issue No. 2*) is tabled.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*



## MINUTES OF PROCEEDINGS

THURSDAY, June 22, 1967.

(3)

The Standing Committee on Transport and Communications met this day at 10:07 a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Bell (*Saint John-Albert*), Byrne, Cantelon, Chatwood, Clermont, Deachman, Horner (*Acadia*), Jamieson, Lessard, Macaluso, McWilliam, O'Keefe, Olson, Orlikow, Pascoe, Rock, Schreyer, Sherman, Southam, Stafford—(20).

*Also present:* Mr. Korchinski, M.P.

*In attendance:* From the Canadian National Railway: Messrs. N. J. MacMillan, President and Chairman; R. T. Vaughan, Vice-president and secretary; W. C. Bowra, System Vice-president; J. L. Toole, Vice-president, Accounting and Finance.

The Committee had the Annual Reports for the year 1966 of the Canadian National Railway and Securities Trust for consideration.

The Chairman introduced the officials of the Canadian National Railway and Mr. MacMillan made a brief statement followed by a film depicting the activities of Canadian National for the year 1966.

The members questioned the witnesses on the substance of the reports.

At 1:05 p.m. the Committee adjourned until 3:30 p.m. this date.

## AFTERNOON SITTING

(4)

The Standing Committee on Transport and Communications met this day at 3:30 p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Bell (*Saint John-Albert*), Byrne, Cantelon, Chatwood, Clermont, Crossman, Deachman, Jamieson, Lessard, Macaluso, McWilliam, Nowlan, O'Keefe, Orlikow, Pascoe, Rock, Schreyer, Sherman, Stafford—(20).

*Also present:* Mr. Korchinski, M.P.

*In attendance:* Same as morning including Representatives of the Auditors Touche, Ross, Bailey and Smart, Mr. Howard Ross, Mr. L. E. Boissonnault, Mr. D. S. Wells.

And the questioning of the witnesses being concluded, the Chairman was instructed to report the references under discussion back to the House.



The Committee then questioned officials of the firm Touche, Ross, Bailey and Smart regarding the Auditors Report to Parliament in respect of the Canadian National Railways for the year ending 1966.

There being no further questions, the Chairman was instructed to refer the Auditors Report back to the House.

At 5:25 p.m. the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

## EVIDENCE

*(Recorded by Electronic Apparatus)*

**Thursday, June 22, 1967.**

**The Chairman:** Gentlemen, we have a quorum. The witnesses this morning are from the Canadian National Railways. We are happy to have with us a gentleman who is appearing before this committee for the first time in his official capacity as Chairman and President of the CNR, Mr. N. J. MacMillan; to his right are Mr. R. T. Vaughan, Vice-President and Secretary; Mr. W. C. Bowra, Systems Vice-President and Mr. J. L. Toole, Vice-President, Accounting and Finance.

As decided upon at the last meeting, Mr. MacMillan will make a short opening statement which will be followed by a 15 or 20 minute film showing a review of the past year, 1966. We will commence the questioning immediately after the film has been run. The members have had the Annual Report in their hands for quite some time so it will not necessary to read it. Questions may be asked under the following five headings: Financial Review, Freight Services, Passenger Services, Personnel and Labour Relations and System Activities.

The Minister of Transport had hoped to be here this morning but he is attending a Cabinet Meeting. He might be able to join us later today.

**Mr. N. J. MacMillan Q.C., (Chairman and President, Canadian National Railways):** Mr. Chairman and Members of the Committee, we are pleased to meet with you once again and we shall endeavour to assist you in dealing with our 1966 Annual Report.

As the Chairman has indicated, it is our desire to begin by showing a film entitled "The Year in Review". We picked this film primarily because the real function of the Committee, I suggest, is to review the year, and as it so happens that is the name of this film. Although from time to time in previous appearances before the Committee we have made use of visual aids of one kind or another, I believe this is the first time we have shown a film.

It seems to me, Mr. Chairman, that this kind of exposure to the sights and sounds that have marked CN's activities across

Canada in the Year 1966 might prove to be a useful background to the material in the printed report which you have before you. The film takes about 28 minutes to be shown. It was not made for the purpose of being shown here. It was, in fact, the fifth annual variation of the Year in Review films which are primarily designed for showing to our employees and to give them some understanding of the scope and nature of this immense enterprise, only a small part of which they normally see. The film cannot, of course, cover all of CN's activities but it does give a cross-section of the year's events.

It was not made as a pre-planned and scripted motion picture. It was made from footage that is normally produced to record and publicize various events that took place during the year and it is then edited to make the composite. The Year in Review. Many of its scenes have been used separately in smaller movies or as television news clips. While the film, as I mentioned, was intended primarily for showing to our employees, it has also proved to be a valuable promotional tool outside the company. It has been broadcast by many television stations and is frequently used for private showings to community organizations and to actual or potential customers both in Canada and abroad. The film was produced by our photographic staff, the sound portion being added by Crawley Films Limited. There are both French and English versions of this film. We will show the English version today but the French film is also here and it may be seen at your convenience if so desired.

With that short explanation perhaps we could now proceed with the showing of the film.

**The Chairman:** Thank you, Mr. MacMillan.

(The film "The Year in Review" was screened. The text of the sound track follows.)

1966 began with a reminder that railroad-ing is a year round business—winter unleashed its fury across the 25,000-mile CN system and employees battled blizzard conditions to keep lines open and trains running.

In the Canadian Rockies, snowslides blocked the main line, trapping CN's Panorama in the Fraser Canyon. With everything done to assure the comfort of the 200 passengers on board, the railway airlifted in 1,500 pounds of food as a precaution. Within a day the passengers were evacuated to the nearby city of Hope from where buses carried them to Vancouver.

None the worse for wear, the passengers had high praise for train employees and the treatment they received during the day-long delay in the mountains.

Meanwhile, track forces and signal crews worked around the clock under difficult weather conditions and train operations soon returned to normal.

Nature threw a second major challenge at the railway early in the spring when floods rampaged through part of southern Manitoba. Racing against time CN dispatched 500 box-cars to move grain from flood threatened areas. Additional cars and extra trains were pressed into emergency service to evacuate livestock, household effects and residents.

CN mobilized to safeguard its own property and equipment, with rubber boots, hip-waders and sandbags in high demand.

Finally, as the floods abated, men and equipment moved in to begin the massive task of cleanup and repair work before re-opening flooded lines to rail traffic.

Spring brought sailing preparations aboard CN's SS Prince George—as captain and crew readied the vessel for the start of its 19th season—a season which was to be the busiest on record for the west-coast cruise ship.

Another indication of a busy year to come was the delivery of the railway's largest diesel locomotive order in recent years. Thirty new high-powered diesels rolled off assembly lines in Montreal and London—the last of which was officially turned over to the Great Lakes region vice-president Douglas Gonder. Before year's end, the railway had announced the order of thirty-five more such units to help move longer freight trains at higher speeds.

Railway freight revenues increased approximately seven per cent during the year. To meet the needs of a growing economy, the railway purchased more than 3,500 pieces of freight equipment, many of them designed for specific jobs—reflecting the boom in specialized freights cars.

At CN's Point St. Charles shops, more than 3,000 existing cars were upgraded while simi-

lar renovation and rebuilding programs were carried out at the Moncton and Transcona shops to help meet the unprecedented demand for freight equipment.

Specialized equipment was also obtained for express freight operations where modernized handling methods were helping to improve the company's competitive position. Close to 500-road-rail containers were purchased during the year. More than 100 road vehicles and 200 custom designed flat cars, necessary for the easy transfer of the units from train to truck, were also bought in 1966.

The new look in express-freight equipment also brought about an experiment in the Maritimes where "cage-carts" have been introduced to handle small, high-value parcels. The carts can be loaded by the shipper at his premises and are easily wheeled on and off various types of conveyances.

At Belleville, St. Lawrence Region vice-president J. A. McDonald and other officials were on hand for the opening of a modern new express freight terminal—the largest of its kind between Toronto and Montreal. An endless moving chain transports carts about the terminal at the rate of 120 feet per minute. Another new express freight facility was opened at Guelph while work neared completion on a seven million dollar express freight complex at Toronto.

While acquiring new equipment and new facilities, CN was also busy building new rail lines during the year. West of the mainline point of Sioux Lookout, crews cleared a path through the rough bushland of Northern Ontario, for construction of a 66-mile branch line. It will tap a rich iron ore deposit near Bruce Lake. A concentrating plant being built there is expected to ship one and a half-million long tons of ore yearly beginning in 1968.

In the foothills of Alberta, work continued on the one-hundred and ten-mile rail project being built for the Provincial Government. A unique helicopter survey was carried out following authorization to extend the line a further 114 miles. The helicopter acts as a target in the measurement of distance and direction, under the control of surveyors on the ground. Providing easy access to rugged terrain, the aerial surveyor can do in 15 days what would take three months to do on the ground.

In Vancouver, work went on around the clock on a bridge and tunnel project which will streamline CN train operations in the port city. An estimated 200,000 cubic yards of sandstone will be removed to cut through the



two-mile tunnel. It will speed grain and similar bulk commodities from the prairies to new docking facilities in North Vancouver, bypassing the downtown area.

On the Grand Trunk Western Railroad, expansion was closely tied to the automotive industry, particularly in the state of Michigan. Yard facilities at Pontiac were doubled during the year while construction on the first phase of a new support yard was completed at Lansing. At Kalamazoo, the Kilgore Yard, being built jointly by GTW and the New York Central, was about eighty per cent complete by the end of the year. When finished, it will include 25 yard tracks with a capacity of 500 cars.

Track crews on the Central Vermont Railway built a three mile diversion on the main line in Northern Connecticut. Relocation of the track was necessary to accommodate plans for a flood control dam to be built near the original right of way. In addition, new mechanized track equipment was purchased during the year and train schedules were speeded up between Montreal and New London, Conn.

Employee training reached a high level in 1966. There were some forty-eight thousand enrollments covering subjects such as apprenticeship, technical courses, language instruction and supervisory development. At Moncton, veteran track foremen annually attend an intensive winter session designed to keep them up to date on track developments. A 300-foot stretch of track, enclosed in a heated shed, never sees a train, but serves to demonstrate the techniques and machinery used in track repair and maintenance.

Another railway course with a difference takes place in classrooms at St. John's, Newfoundland, where CN marine electricians keep pace with developments in their trade. The course includes 16 weeks of classroom work and an equal amount of on-the-job study aboard ship.

Reclamation yards at Moncton and Winnipeg produced a net saving of over eight million dollars in the past year. The plants reclaim used rail and old parts from railway equipment while selling other discarded material as scrap. At the Transcona plant, annual operations range from the reclamation of two and a half million feet of rail to the straightening of eleven million track spikes.

The Moncton brass foundry—the only such operation of its kind on the railway—completed its sixtieth year of operation in 1966.

The foundry—with much of its equipment tailor-made by its employees—turns out such items as car journal brasses, diesel suspension bearings, water couplings and an assortment of other brass products.

CN's drydock at St. John's, Newfoundland had one of its busiest years ever. Seventy-nine vessels were drydocked for repairs—the largest of which was the railway's own ship, the S.S. Patrick Morris.

In addition to the drydocked vessels, CN crews repaired another 215 ships alongside the drydock—in all over 450,000 tons of shipping underwent repairs here—a reflection of St. John's strategic location to the Atlantic shipping lanes.

A number of changes in CN's ferry operations across the Cabot Strait began in 1966. They are designed to improve service between the mainland and Newfoundland while coping with an increasing volume of freight.

The changes involve new dock facilities at North Sydney, Port aux Basques and Argentina; two new ships, modification of existing vessels and a new ferry service between North Sydney and Argentina.

They will enable mainland freight cars to be ferried across the strait for interchange of traffic with Newfoundland's narrow gauge cars, thus eliminating one unloading step.

The changes will have far-reaching effects, reducing waterfront employment, particularly at North Sydney where the interchange of shipments between freight cars and ships will be eliminated.

Joint committees of railway and union representatives are making a co-operative effort to ease the effects of the changes on workers.

An example of this co-operation was the instruction in various high school courses of these North Sydney longshoremen. Due to be displaced when the new rail-car ferries begin operation, they took advantage of railway assistance to upgrade their basic education. Graduation in August marked an important step along the road to equipping the men for entry into trade and business schools.

Another development on the East Coast was the addition of a new vessel, the Leif Eriksson, to the CN fleet. The sleek ship carries up to 560 passengers and one hundred and ten automobiles. Addition of this vessel provides the railway with the capacity to move more than 2,000 passengers and 400 vehicles across the Cabot Strait each day.

The CN system extends far beyond the nation's boundaries—in Europe the company is represented by a sales force of more than 100 people, in addition to a number of agencies which represent the company in various countries.

One of the busiest offices is in Paris, where the railway owns its own building on Rue Scribe—transportation row in the French capital. Headquartered in London, CN's European sales forces offer passenger freight and express services connected with travel and trade to Canada.

The amount of foreign freight handled by CN is increasing yearly. One of the most important services provided by the railway's European representatives is to facilitate the movement of freight bound for destinations in Canada through European ports.

One such shipment dispatched during the year was an order of British-built buses, loaded at London and carried through the Panama Canal to Vancouver. From Vancouver they travelled by CN to their destination at Edmonton.

On the new frontier, along the Mackenzie River of the Northwest Territories, CN Telecommunications crew were racing Spring breakup across the tundra into Inuvik on the Arctic Coast. They were utilizing the frozen terrain to complete the last section of a 1,000-mile telephone line which required three winters to build.

The job was finished on schedule. It gives communities along the Mackenzie River direct telephone, teletype and telex connections with the rest of Canada. In August, CNT general manager Harold J. Clarke took part in ceremonies at Inuvik, formally opening the network. The first official call was made by Territorial Commissioner B. G. Sivertz to Prime Minister Pearson, launching a new era in this part of Canada's North.

One of the important projects made possible by completion of the Inuvik line was the installation of a radio telephone network to link extreme northern communities to larger centres equipped with hospitals and medical advice.

District nurses in the smaller communities are now able to make radio contact with the nearest hospital and receive advice on emergency cases. Air evacuation of seriously ill patients has also been facilitated by the radio network.

In the Yukon, where a once near-exhausted mining economy is making a strong comeback with the discovery of metals other than gold,

CNT crews pushed a 63-mile pole line from Dawson City into a promising resource area. The line will serve a new asbestos development at Clinton Creek, the largest single mining development in the Yukon, and the site of a future town for 400 mine employees.

CNT installers were also busy in Ottawa. The National Capital Commission plans required the relocation of telecommunication facilities in a new building near the recently completed Ottawa station. The new communications centre houses the Ottawa terminal of the Montreal-Vancouver microwave system as well as accommodation for expanded telex and teletype facilities.

Rail travellers to the nation's capital began using the modern new Ottawa Station in 1966. It is part of the National Capital Commission's railway relocation program. The long-range plan is designed to remove major railway installations and tracks from the central area of Ottawa.

At Edmonton, the impressive new CN Tower, dominating the city skyline, was completed and opened for use. The 26-storey building is the tallest on the Canadian Prairies. Late in the year, President Donald Gordon formally opened the building, which has played a strategic part in pushing forward Edmonton's civic centre redevelopment. It houses the most modern of railway stations, a shopping arcade, regional and area railway headquarters and private office accommodations.

1966 was the biggest year in passenger miles that the railway experienced since 1946. Passenger service revenues climbed eighteen per cent over the previous year.

To meet the demand, the railway expanded services and ordered more equipment. Rapido service was expanded between Toronto and Montreal and extended to Quebec City. More than 300 existing cars were upgraded. Twenty-nine additional cars were obtained from U.S. railroads.

CN also placed orders for the construction of 25 modern, lightweight passenger cars. They will go into use in southwestern Ontario as five-car train-sets in mid 1967.

The biggest passenger news of the years was the announcement by then-executive vice-president, Norman J. MacMillan that CN would introduce revolutionary turbine powered passenger trains between Montreal and Toronto in 1967. Five-seven car sets, designed by United Aircraft Corporation and built by Montreal Locomotive Works, are being obtained from UAC on a lease-maintenance



basis. The trains incorporate a number of new features including improved suspension, sliding doors and the latest in interior design and passenger comfort and convenience.

The turbotrains introduce a new and exciting era of railway transportation—a fitting event for Canada's centennial year.

Another era drew to a close in 1966—the distinguished railway career of Donald Gordon, CN's chairman and president for the past 17 years—a period marked by an impressive rebuilding and modernization of facilities and services.

Norman J. MacMillan, his successor, with 30 years of railroading behind him, 10 as executive vice-president, could look with confidence towards continued development of the program he himself has done much to shape.

Both men expressed their thanks to the employees and the board of directors for the job that has been done in rebuilding the railway. Since 1950 an impressive number of improvements has enabled the company to effectively meet the increasing competition from trucks, airlines and the automobile.

Dieselization.

Betterment of maintenance of way.

Improved signalling and new traffic control systems.

Electronic humpyards.

A new corporate symbol and visual redesign.

Introduction of the "marketing approach" to meet customer needs.

A new, decentralized management structure.

A wide range of new freight equipment.

Piggyback, containerization, trucking services and new modern facilities.

Employee training and personnel development.

Urban development sparked by CN real estate.

Expansion and modernization of hotels.

Spectacular electronic growth by CN Telecommunications.

Over a thousand miles of new branch lines and industrial spurs since 1950.

From the Red, White and Blue fare plan to the new turbotrains spectacular developments in the passenger field which brought people flocking back to the trains.

Mr. MacMillan's first year at the throttle will be Canada's 100th birthday and the year of the turbotrains; the year of government legislation with wide-ranging effects on rail operations and the year which will bring CN to the verge of recording its first billion dollar year of gross revenues.

The new, imaginative spirit of CN is perhaps symbolized by the company's pavilion at Expo 67 in Montreal which was turned over to the new president at year's end.

A dynamic pavilion, reflecting a company whose organization is geared for change and growth, for the use of new materials and techniques, for the exploration and penetration of new markets—a company which looks to the future with imagination and confidence.

**Mr. MacMillan:** Mr. Chairman, we have found this type of presentation very popular with the employees. It serves to engender a source of pride in the wide scope and range of the activities of our great enterprise. I thank you for the opportunity of projecting it this morning.

**The Chairman:** Thank you, Mr. MacMillan. On behalf of the Committee may I thank you for the fine film that was presented. I am sure the Committee has become used to presentations of a visual nature from CN and it actually looks forward in its questioning to seeing more visual aspects of CN's operations.

When asking questions we will follow the headings I previously listed and which are outlined in the Annual Report. The last item to be discussed, of course, will be the "Auditors' Report". We will now start with the first heading on page 3, "Financial Review". Mr. Orlikow's name is the first on my list.

**Mr. Orlikow:** Mr. Chairman, I wonder if the financial review for the past year indicates that it was a very good year for the CNR. There is a deficit as there has been for many years, although it is smaller than in 1965, but I wonder if Mr. MacMillan could outline very briefly for the Committee the composition of the deficit. Although Mr. MacMillan may deal with other matters, I am particularly concerned about how much of this deficit is the result of the original debt which was assumed by the CNR at the time the early privately built and operated companies' bank debts were taken over by the Government of Canada?

**Mr. MacMillan:** Mr. Orlikow and gentlemen, I think I know what you are referring to and my answer may be a little bit bleak. The situation really is that the railways which merged in 1923 to become Canadian National had virtually no depreciation and there was none taken until the time of the last war when we began to allow for depreciation on rolling stock and equipment. When the time came to rehabilitate the railways after the depression there were no depreciation funds available to accomplish this, with the result that the funds required to put it back into an operating condition had to be borrowed. The interest burden flowing from that program last year amounted to \$64.7 million. In our net railway operating account we had a net profit of \$40.1 million, so when \$40 million is subtracted from interest of roughly \$65 million we are left with a deficit of \$25 million. That is a simplification and an abridged answer.

**Mr. Orlikow:** Is it then a fair summation that certainly for the past 45 years the CNR has been meeting all of its obligations, including any capital advanced by the government for modernization, extensions and debt charges? It must be assumed that because of earlier accounting practices and the failure to put anything in for depreciation you did not have anything with which to start off.

**Mr. MacMillan:** Yes. Every one of the charges against the CNR have been reflected in its accounts. In those years when we had a net operating profit that profit was available against interest burdens. In the years when there was a deficiency then, of course, that deficiency appeared in the deficit and it was paid by Parliament. As you will remember—and I am sure this is what provoked your question—the 25 year history in this respect is spelled out in considerable detail on page 40 of the Annual Report.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, to get at this in a little different way, I think it was as far back as 1962 that we began to talk of recapitalization and efforts were made to present a truer picture of the actual situation of the company in an attempt to get away from the imposition of this old debt structure on the final figures.

Can you explain why this was included in the financial statement? With respect to the deficit that is shown under Financial Review have there been any changes in recapitalization that would show up in that deficit or is

that yearly decreasing deficit a fairly comparative true picture? I hope you understand what I mean.

**Mr. MacMillan:** Yes, I do. The history of the years 1961 to 1966, where the trend is to a declining deficit each year, is as a result of the activities of the railway without regard to recapitalization at all. It really represents increased productivity and the opportunities which have arisen from substantially increased business. Insofar as recapitalization is concerned the matter stands as it has for some time. I have a short statement to make about this matter and perhaps it might be appropriate if I made it now.

Reference has been made in this Annual Report and in previous reports regarding proposals which the company has made to the government concerning a revision of its capital structure, and the occasion for a re-examination of the financial structure came about upon the expiry of certain sections of the Capital Revision Act of 1952. Pending completion of the analysis and disposition thereof these particular sections have been extended on a yearly basis by each annual Financing and Guarantee Act. I am sure you remember that.

Primarily the expired sections have to do with purchase by the government of the 4 per cent preferred shares on an annual basis equal to 3 per cent of the gross revenues and the waiver of interest on the \$100 million debenture which was part of the 1952 revision. As I mentioned a moment ago, these two provisions have appeared and reappeared in the annual Financing and Guarantee Acts.

The financial results, as indicated by the Annual Report before you, indicate that the total gross revenues of the company in 1966 were close to the billion dollar mark—short by only \$1.4 million—and the net profit before interest was \$40.1 million. However, the extremely heavy interest burden of \$64.7 million produced in the result a final deficit of \$24.6 million. While this result represents a continuation of the over-all financial improvement experienced since 1961, it is a fact that we still ended the year with a deficit which by any measure is quite large.

The details of the capital revision proposals which we made to the government, and which are still being analyzed and discussed between us, are confidential at this point. However, it is appropriate to say, as we have



stated on other occasions, that the basic principle of the proposal is that the company should be relieved of the burden of debt charges which makes the annual profit and loss account an inaccurate reflection of management and employee efficiency.

The company's position is that most of the debt arises through a deficiency in depreciation practices which restricts the company's ability to finance capital expenditures through internal sources.

That is a very short and simple explanation of a very big question and we would be ready to proceed with the matter when the details are settled between ourselves and the government.

**Mr. Bell (Saint John-Albert):** I could never fully understand that but I do not want to go into it now I thank Mr. MacMillan for that statement but I would like to ask this question. There was a deficit in 1965 of \$33 million and this year the deficit is \$24 million, so as far as I am concerned, with just an over-all glance at it and no matter how you play around with the figures, the deficit has been reduced by \$9 million. There is no reflection whatsoever in that \$9 million that it is a different method of setting up this old depreciation?

**Mr. MacMillan:** None whatever.

**Mr. Bell (Saint John-Albert):** In the full sense of the word, no matter how you wrap it up, we are at least \$9 million better off than we were the previous year and it is really a true profit to that extent?

**Mr. MacMillan:** That is correct. If you wish to go back a bit and compare it with 1960 it is a \$43 million improvement.

**Mr. Bell (Saint John-Albert):** Are there any projections on the deficit for 1967 and later?

**Mr. MacMillan:** At the time we filed our current budget we projected a target deficit of \$15 million in 1967. There have been some developments since that time which have made this \$15 million a real challenge, I can assure you.

**Mr. Bell (Saint John-Albert):** Without asking you to be too optimistic, do you foresee a time in the not too distant future—leaving aside anything that might be very exceptional—when we possibly might have a railway without a deficit?

**Mr. MacMillan:** That is our definite objective.

**Mr. Bell (Saint John-Albert):** When will this be? Is there any projection on the time?

**Mr. MacMillan:** In the next two or three years. At the most four years, I would hope.

**Mr. R. T. Vaughan (Vice President and Secretary, Canadian National Railways):** We would also like to have supervision of the financial structure as part of that objective.

**Mr. Horner (Acadia):** With regard to the interest rate, I notice that even from last year it has fluctuated a great deal, from 61.9 to 64.7. Why does this fluctuation of roughly \$3 million in interest rates occur in the various years?

**Mr. MacMillan:** Mr. Horner, this is basically because of refunding of maturing issues at a higher interest rate. Perhaps Mr. Toole could give you a little more information about that.

**Mr. J. L. Toole (Vice President, Accounting and Finance, Canadian National Railways):** One of the things that happened during the year is that we had to refund a \$35 million issue that had been on our books at about 3 per cent and that entered into the current level of interest rates. I do not know the exact percentage but I believe it was close to 5 per cent. The principal thing is the rollover of our notes with the government during a period of an increase in rates.

**Mr. Horner (Acadia):** In looking at your revenue statement, I see that something like 72 per cent of it comes from freight haul. Do you estimate that both your freight and passenger haul just about pay for themselves? Is it correct that you are not losing money hauling passengers or hauling freight?

**Mr. MacMillan:** You are correct in respect to freight but not in respect to passengers. We do not lose money hauling freight.

**Mr. Horner (Acadia):** But you do lose money hauling passengers?

**Mr. MacMillan:** Yes. You may remember we made a presentation—I believe it was in the fall although I have forgotten exactly—which was confined to the passenger business and at that time we explained that the passenger business in isolation costs us money and that we had undertaken programs which were directed towards reducing the losses on passenger business. We hoped we would find the means by which we could liquidate the losses on passenger business.

**Mr. Horner (Acadia):** In the last two years I think the CNR has embarked upon a very bold plan to increase the number of passengers on trains. Would you say in doing this that your deficit has increased with regard to passenger haul or that you are attempting to reach a break-even point?

**Mr. MacMillan:** Well, we are heading in that direction.

**Mr. Horner (Acadia):** In other words, your efforts towards increasing the number of passengers on trains has brought about a decrease in your deficit in passenger haul?

**Mr. MacMillan:** We think it has, yes.

**Mr. Byrne:** Mr. MacMillan, when there was a recapitalization program in 1952 I believe I was a member of the committee but my mind is not too clear on what was done. Did the federal government assume the existing debt by taking over other branch lines?

**Mr. MacMillan:** No, it assumed part of the debt but not the entire debt.

**Mr. Byrne:** The capital debt aside from depreciation.

**Mr. MacMillan:** The main features of the 1952 act were these. One half of the interest-bearing debt outstanding at that time, which amounted to \$736 million, was converted to equity capital in the form of 4 per cent preferred stock. In addition there was relief granted for a period of 10 years of the interest burden on a \$100 million debenture. This is the debenture interest I mentioned which is being dealt with each year in the Financing and Guarantee Act. At the same time the government was authorized to purchase from us 4 per cent preferred stock similar in issue to that which I referred to a moment ago in amounts equal to 3 per cent of our annual gross revenues, and that is, in effect, what happened.

**Mr. Byrne:** Then the interest of \$42 million which you are presently paying is not entirely due to modernization of the lines that you took over?

**Mr. MacMillan:** No. Included in that is the interest on well over \$700 million which was outstanding in 1952.

**Mr. Rock:** In your financial report I do not notice any indication of the amount spent on capital expenditures for the year 1966.

**Mr. MacMillan:** If you look at page 32 under Property Investment Statement you will see the capital expenditures made in 1966 which flowed from the operating budget which was filed in Parliament for that year.

**Mr. Rock:** I am very interested in the elimination of level crossings and I would like to know—

**The Chairman:** Mr. Rock, we are dealing with separate headings.

**Mr. Rock:** This is under the financial section and I would like to know what amount of money the CNR spent for the elimination of level crossings. I know it is not as much as the commission grants but I would like to know the amount spent in 1966.

**Mr. MacMillan:** We can give you that.

**Mr. Vaughan:** Perhaps we could extract it from the accounts and give it to you.

**Mr. MacMillan:** We would be delighted to do that.

**Mr. Rock:** Fine.

**Mr. Schreyer:** I notice you said that you hope the railway in the next two or three years will arrive at a non-deficit position. Do you mean even if the CNR must maintain responsibility for net interest on long term debt? I presume that is what you mean because since 1961 the railway has been operating in a net profit position, has it not?

**Mr. MacMillan:** Yes. You may recall in explanation of the declining amount of the deficits I said that this represented an improvement in productivity and it also reflected the buoyancy of the economy in which we were operating. I also said, assuming a continuation of these conditions,—and I think I said three or four years rather than two or three years—that we hoped to see a black position. However, at the same time we are very interested in recapitalization. It is true we have borne this burden and we contemplate we will have to continue to bear it but if we get recapitalization and business conditions are good and we can continue to operate efficiently, then it should put us into a profit position. I think that is a good objective. I do not see anything wrong with our making some money for Canada rather than the reverse.

**Mr. Schreyer:** Then, Mr. Chairman, the net interest on debt figures, as shown in the small chart on page 3, indicates an increase of



almost \$3 million in net interest. Is this mainly because of an increase in the debt or is it because of an increase in the rate?

**Mr. MacMillan:** I am glad you asked that question. I meant to explain it. The debt has gone down. It has not gone up. We have not borrowed any money since 1960, I think it was, and we have lived entirely through that period on our own capital, capital which flows from depreciation and other sources. We have actually underspent our self-generated capital to the extent of approximately \$65 million, which has been repaid to the Crown. Therefore the debt burden we are presently carrying is approximately \$65 million less than it was in 1961. The increase in the charges flows from the necessity to refinance some of these older issues at interest rates higher than those which prevailed in 1961.

**Mr. Schreyer:** Are your bond liabilities so arranged in the next few years that you will be refinancing ever-increasing amounts? I notice, for example, that last year the railway refinanced \$35 million, and this year will be refinancing \$122 million.

**Mr. MacMillan:** That is correct.

**Mr. Schreyer:** And perhaps more next year, and so on and so forth, so that the effective interest rate will be rising perhaps quite sharply?

**Mr. MacMillan:** Yes; it will reflect whatever the market price for money is at the time. If interest rates continue to increase, then our burden will continue to increase. If, on the other hand, interest rates go down in the money market, then we will obtain some relief.

**Mr. Schreyer:** I have one final question. The average interest rate on the debt owed last year was about 4.5 per cent, and it is now 4.8 per cent. I am assuming that because of the relatively large amount that has to be refinanced this year and because of the current state of the money market, it is possible that your average interest rate payable on your debt perhaps will be going over the 5 per cent mark?

**Mr. MacMillan:** I am afraid that it will increase; how far, I would not like to say. Probably Mr. Toole could tell you. Inevitably, it will increase.

**Mr. Toole:** It is expected to increase.

**Mr. Schreyer:** You do not view with alarm the fact that on a very large debt holding the effective interest rate can increase by one per cent within a period of two years?

**Mr. MacMillan:** We view with alarm anything that is going to add to our expenses, but it is not something we can do much about.

**Mr. Pascoe:** Mr. Chairman, I was interested in Mr. MacMillan's comments about the 1967 target for a \$15 million deficit and he said that it represented quite a challenge. I have a small clipping here from one of the papers which says that in April the net railway operating loss of the CNR was \$2,863,000 as against railway operating income of \$3,811,000 in April 1966. Is that an exceptional situation for this April or does it indicate that operating expenses are going to be higher?

**Mr. MacMillan:** That reflects two conditions, Mr. Pascoe. In the first place, it reflects the wage awards which flowed from the strike of last fall. You will recall that the statute terminating the strike provided for a payment of 18 per cent on wages; those now are current and we are paying these increased wages. Associated with that was a falling off in the levels of business which began very late in 1966, and the first quarter of 1967 reflected the continuation of this trend. During this period the output of several of our most important industries declined very substantially. This was particularly true of the automobile business, for example. There were continued adjustments in the business inventories; there was an apparent hesitation or sluggishness in capital expenditures on plants and other activities, so the net result of all this was that our gross earnings declined. In actual fact, our dollar earnings were off about 1 per cent compared with the December average but our tonnage was off about 5 per cent. I am talking largely of the freight side because that is where it is most reflected. In actual fact, we think the automobile business was off about 11 per cent; pulp and paper was off about 3.6 per cent; there were very substantial reductions in mineral products, which were off 7 per cent; manufacturing products were off about 4 per cent; agricultural products were off about 12 per cent; and so on, with the results that you referred to.

**Mr. Pascoe:** I referred to April. Would you say the situation is improving now?

**Mr. MacMillan:** We think, and we hope that we have come into a levelling-off condition.

**Mr. Pascoe:** On pages 4 and 5 in regard to passenger service, this chart shows a very steady increase in revenue. Would you say that was because of an increase in passengers or increased rates, or a combination of both?

**Mr. MacMillan:** More particularly an increase in passengers.

**Mr. Pascoe:** You refer to the positive approach in passenger services.

**Mr. MacMillan:** That is correct.

**Mr. Pascoe:** I commend the CNR on that.

**Mr. MacMillan:** We worked hard on it.

**Mr. Pascoe:** There have been comments about the difficulty of securing accommodation and reservations on the CNR, CP and Air Canada. Are you putting all your equipment to maximum use now?

**Mr. MacMillan:** We are trying to. We are trying to use it to the optimum.

**Mr. Pascoe:** Have you plans for securing more facilities and more equipment?

**Mr. MacMillan:** Yes.

**The Chairman:** Mr. Pascoe, can that wait till we get to the passenger service?

**Mr. Pascoe:** Well, it is right here under "Revenues". It is in the financial review.

**Mr. Chairman:** I know it overlaps but, as far as equipment is concerned, could you keep that until we get to page 10, Passenger Services? I will put you on the list for it right now.

**Mr. Pascoe:** All right. I suppose you will not allow my next question either at this time and this is financial too. In regard to the Federal Government subsidies you refer to the East-West Bridge Subsidy on page 6. As you know, we out in the prairies have always been quite interested in this. How would the proposed removal of the bridge subsidy affect your East-West long haul rates?

**Mr. MacMillan:** It is very difficult for us to speculate with any degree of exactitude the impact of a thing of this kind, but one aspect of it that most people always overlook is that it applied to basic rates and did not apply to competitive rates or traffic moving under

them, and the bulk of the traffic in fact does. I suggest, most certainly in tonnage and in revenue, that the traffic that moved across the bridge—that is the rock through Northern Ontario—was not subject to the subsidy.

**Mr. Pascoe:** The subsidy in 1966 was 2.9 million. If that is removed, how are you going to pick that up?

**Mr. MacMillan:** We will have to get this out of our new environment which is established by the new legislation.

**Mr. Pascoe:** Thank you.

**Mr. Olson:** Mr. Chairman, Mr. Pascoe dealt to some extent with the question that I would like to deal with.

On page 6 under the Financial Review you show an increase in the expenses of \$29.1 million for additional wage costs in 1966 compared with 1965. I presume that this reflects some of the changes that were made in the negotiations as a result of the Act of Parliament and so on.

**Mr. MacMillan:** That is correct, Mr. Olson.

**Mr. Olson:** With these increased wage rates, and I understand they will be progressive for 1967 and 1968, and then the withdrawal of some of the subsidies, such as the one that has been referred to and others, I am a little puzzled at your statement that you expect to balance these deficits out within two or three years. May I ask you what kind of changes in the freight rate you anticipate, either in total dollars or in percentage, to make up for what would appear to be these substantial increased costs coming to you in 1967 and 1968?

**Mr. MacMillan:** In the first place, the Statute provided that with the termination of these various subsidies there would be substituted for them about \$110 million, which is to be reduced by \$14 million per annum down to the last year when it becomes \$12 million. That is the global sum to be made available for division among the railways subject to this legislation. So in the initial year we shall receive a substantial amount of money from that source. During this transitional period, passing from an environment of rigid controls to one of relative freedom, we shall have to adjust freight rates. As you recall, last fall we increased the agreed charges and the competitive rates by approximately 10 per cent and that is the means by which we were able to recoup the difference



between the 1 per cent which we are off in revenue in the quarter and the 5 per cent in tonnage; there was this cloak which gave us the additional amounts. In addition to that, on May 4 some changes in the rate structure on non-competitive traffic became effective. We used a sliding scale here running from 6 to 12 per cent, and we think that for the remainder of 1967 from that source we shall obtain additional revenue ranging from \$6 to \$9 million, of course depending again on the volume of traffic and the extent to which we find we can maintain the increase. I think it goes without saying that if we find that there is very substantial attrition on a particular class of traffic flowing from an increase in rates, the rates will have to be adjusted downward.

**Mr. Olson:** I understand that, but it would appear to me that you could probably anticipate an additional increase in wage costs, including all the other fringe benefits that go with it, of perhaps \$25 to \$30 million in 1967 over 1966, and at the same time you are going to have a loss of some revenue by way of subsidies of whatever it happens to be, \$7 million or \$8 million. Do you anticipate in compliance with the other statements that you have made, that you are getting toward a balance which is going to be made up by increases in productivity? Do your projections include a substantial increase in the rates? This is the point I was trying to make.

**Mr. MacMillan:** No. The real answer to this is that we cannot price ourselves out of the market. We have to remain competitive in rates, otherwise the traffic will flow to a competing form of transport. We have to learn more about how to do the things that have to be done for less money, more efficiently, more intelligently; in this, I think we have made great progress.

**Mr. Olson:** With your rate structure now at about the maximum, do you think you can remain competitive?

**Mr. MacMillan:** That could be in some traffic; it may be that in respect of other traffic it is not. It is to some extent a matter of trial and error. We have to probe and determine what the opportunities are.

**Mr. Olson:** Thank you.

**Mr. Jamieson:** I just have one or two questions, Mr. MacMillan, particularly in connection with the unique situation in Newfoundland. Before I get to that, your film made some references to CN telecommunications.

**The Chairman:** Mr. Jamieson, I hope your questioning is on financial. . .

**Mr. Jamieson:** If you would wait just a moment, I will get to it. What I was going to ask you is whether there is any financial cross-over at all between CNT and the CN figures. In other words, does this report deal strictly with the railway operations?

**Mr. MacMillan:** No, the activities of the system, embracing CNT.

**Mr. Jamieson:** Is it possible, for example, to say whether CNT stands on its own bottom, or is it just too complex to separate that?

**Mr. MacMillan:** It is very difficult to do that with a degree of exactitude, but we do have, for our managerial purposes, figures upon which we reach a determination of that nature. We think that it does stand on its own bottom.

**Mr. Jamieson:** In connection with the Newfoundland situation, sir, as I understand it—and it is in the report of the Provincial Royal Commission on Transportation—the ownership of the assets constituting the railway system in Newfoundland, including the steamships, is vested in Her Majesty the Queen in right of Canada and not Canadian National Railways Company.

**Mr. MacMillan:** That is correct.

**Mr. Jamieson:** That is a factual statement. On page 6 there is an amount of \$22.4 million in 1966 for Newfoundland and P.E.I. Steamship Service. Is this the only special grant or payment that is made because of the unique status of the railway in the province of Newfoundland, or are there some other amounts? For instance, do you get some special subsidies on rail operations or any other facets.

**Mr. MacMillan:** As far as I know, the figure shown here is the correct figure. This is the net out of the operating account on the steamship services. In respect of the railway itself, although it is basically owned by the crown the operating results are reflected in the company's accounts.

**Mr. Jamieson:** In other words, if you run at a loss, shall we say, in the railway freight operations, you must find the funds to cover that loss from the normal sources. There is no special grant or anything of that nature?

**Mr. MacMillan:** That is reflected in the \$24.4 million deficit of 1966.

**Mr. Jamieson:** Do you have a figure, sir, that would indicate how much of that \$24.4 million was P.E.I. and how much was Newfoundland?

**Mr. MacMillan:** I really do not know whether we have that figure. I do not think I have ever seen one.

**Mr. Jamieson:** You do not know whether you have that.

**Mr. MacMillan:** I do not know.

**Mr. Jamieson:** It would be interesting if we had some indication of just what the percentage was.

**Mr. MacMillan:** It is not in my mind. I do not think I have seen the figure. With a year's notice, I think we could create the figure.

**Mr. Jamieson:** From what source are these moneys provided to you? Is it all from the Maritime Commission, or does it come from the Department of Transport estimates?

**Mr. MacMillan:** Basically the Department of Transport.

**Mr. Jamieson:** But probably all of it would be handled by the Maritime Transportation Commission.

**Mr. MacMillan:** They certainly play a major part in it. I have forgotten whether or not they determine upon it all, but they do determine upon the major part of it, and I could inquire if you would like.

**Mr. Jamieson:** I would like to have that for my own private information; other members may be interested in it, but I would like to know.

**Mr. MacMillan:** We would be very happy to do that.

**Mr. Jamieson:** I noticed in the film also these new passenger ships, the Lief Eiriksson and the Patrick Morris. Were these purchased by the Government as opposed to the CNR.

**Mr. MacMillan:** The Government of Canada.

**Mr. Jamieson:** And you operate them for the Government of Canada.

**Mr. MacMillan:** Yes, we do.

**Mr. Jamieson:** And any losses on those are reflected in the \$24.4 million.

**Mr. MacMillan:** That is correct.

**Mr. Jamieson:** So that in effect then the bridge, if you want to call it that, between North Sydney and Newfoundland is actually operated at cost by the CNR.

**Mr. MacMillan:** That is correct.

**Mr. Jamieson:** Thank you, Mr. Chairman.

**Mr. Cantelon:** I was rather intrigued by the foregoing discussion because, if I remember the transport estimates properly, there was something like \$13.1 million paid out for the ferry services between Newfoundland and the mainland. I am just wondering if these are not subsidies that the CNR has the use of.

**Mr. MacMillan:** I am not sure I understand your question, but if we had the use of them, they disappeared right away because that is the amount of the deficiency.

**Mr. Cantelon:** From what you were saying to Mr. Jamieson, I gather that you do get subsidies from the Department of Transport and that these are used for the operation. They go into your general fund.

**Mr. MacMillan:** Yes. It really works in reverse. We conduct the operations of services of this nature, and there are several more, in which all of the revenues are credited to these accounts and all the expenses are charged against it and the amount required to pay the deficiency is paid to us.

**Mr. Jamieson:** I can help you with this, if I may. In the terms of union—that is, it is part of the B.N.A. Act—they were required to maintain a freight and passenger steamship service between North Sydney, Port aux Basques and without going into all the details it is provided that this shall not be a rate that is higher than—I guess it is our Crowsnest Pass rate.

**Mr. Cantelon:** I am not objecting to it, but the point that I would like to make at this particular time is that the new Railway Bill is supposed to make it possible for every phase of transport to operate efficiently and without subsidy from the government. Yet here is a case where there is subsidy.

**Mr. MacMillan:** But it is a government service, you see.



**Mr. Cantelon:** Oh yes, it is a government service.

**Mr. Jamieson:** I hate to let this pass—

**The Chairman:** It is OK; you are passing it.

**Mr. Jamieson:** I was merely going to say that there is a difference, however, because this is guaranteed in the terms of...

**The Chairman:** Your point has been made before, thank you.

**Mr. MacMillan:** I note on page 8, under the subheading Taxes, that one of the reasons for increase in taxes is higher property tax, \$1 million for 1966. Have you made an estimate of what the increased taxes will be as a result of the new Transportation Act, now that you are subject to property taxes which you were formerly exempt from.

**Mr. MacMillan:** Yes, we have. I do not have the figure but I can get it for you.

**The Chairman:** Just an approximation.

**Mr. MacMillan:** Do you know what it is, Mr. Vaughan?

**Mr. Vaughan:** \$1½ to \$2 million.

**The Chairman:** \$1½ to \$2 million in addition for 1967?

**Mr. Vaughan:** That is right.

**Mr. Orlikow:** I want to ask a question with regard to the statement on page 36. Could you explain the last item, Mr. MacMillan, "Acknowledgement for the unfunded liability in respect of past service of employees". It has jumped, as I see it, unless I cannot read, about \$200 million. Why should that happen at this time? I thought that for some time the employees and employer had been putting in the amount of money required?

**Mr. MacMillan:** In summary, that reflects the 18 per cent wage increase awarded last September. This is a rather complex question. I could ask Mr. Toole to explain it to you in greater detail but the actuarial examinations which are periodically made of the fund were brought up to date to reflect the increased wages which have to be paid and the resulting figure was in excess of the actual cash investments and reserves. It jumped by that amount of money.

**Mr. Orlikow:** Maybe this is not the time to pursue this line of questioning.

**The Chairman:** We will get back to that.

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**Mr. Orlikow:** May I ask one more question? In your film you show a number of extensions—new lines to mines and so on; what does that do year by year to the debt position of CNR? For example, how much did it cost to build the line from the point where the railway was to Pine Point Mine, where does the money come from, what is the debt charge on it, and do the revenues meet the cost?

**Mr. MacMillan:** That railway was built in different circumstances. It is not fully completed yet. The actual cost is something of the order of \$75 to \$80 million and we could give you the current cost if it is important. It was done under a Federal Statute and we were directed to build the line as the agent of the Crown. The Federal Parliament has put up all of the funds required for the construction, therefore it is not reflected in our interest charges at all.

**Mr. Orlikow:** So there is \$80 million which the CNR did not have to put up but the Government of Canada did?

● (11.30 a.m.)

**Mr. MacMillan:** That is correct.

**Mr. Orlikow:** Do the revenues which come in from the charges which have been paid for the freight you move meet not only your operating cost but provide enough money for the payment of the debt charges on that \$80 million?

**Mr. MacMillan:** There are several questions there, Mr. Orlikow. The rates on the traffic are not specifically set, so far as I know, to reflect the interest charges on the construction.

The railway was built as a developmental railway to open up part of the north country. It has proven much more successful certainly than I personally anticipated it would be because of the very substantial flow of south-bound traffic which has originated at Pine Point. There is also traffic originating at various points along the line where new communities have sprung up. The railway, as a railway, is not formally opened for traffic yet because theoretically it is not completed and we are still working on different segments of it. Until that time has been reached it will be put in the category of being a railway subject to all the normal tariff arrangements that apply to the mainline into Winnipeg, for example. It is still operated as a railway under construction.

**Mr. Orlikow:** As I understand it, the mine at Pine Point is majority-owned, if not 100 per cent, by the CPR? I would like to know whether that mine, on which I am sure the CPR is making substantial profit, is carrying its share or whether the people of Canada either through the CNR or the Government of Canada are paying substantial debt charges on the \$80 million which it cost to build that railway?

**Mr. MacMillan:** I think I understand your question. The answer is that we are exacting in freight rates for the movement of this traffic as high a rate as we think we can. It does make a contribution toward the capital. It definitely pays operating expenses and contributes toward the cost of the capital involved.

**Mr. Orlikow:** Which you pay to the Government?

**Mr. MacMillan:** It goes into the pot really, Mr. Orlikow.

**Mr. Orlikow:** I suppose for more detail we would have to go to the Minister of Transport or to the Minister of Finance to see whether the interest charges and the carrying charges are substantial?

**Mr. MacMillan:** I would like to be able to tell you that we can give it to you but I do not know whether we can. When this railway has been fully completed and if it does become lodged with the Canadian National then I think we would have those figures. But at this point in time, by virtue of its still being under construction, I am not at all sure that they are created and that we would take the figures off in that form.

**Mr. Orlikow:** When will the railway be completed?

**Mr. MacMillan:** In the next year or so very likely.

**Mr. Orlikow:** May I give you notice now that when it is completed I would like you to be able to answer that question?

**Mr. MacMillan:** We will try.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, in quickly comparing revenue figures of the CNR with the CPR I note with some satisfaction that the freight revenue per ton-mile of the CNR has been around \$1.37—\$1.35, \$1.38 and \$1.37—which is shown on page 40 previously referred to, and the CPR show,

again for revenue per ton-mile of freight, \$1.37 in 1965 and now \$1.34, so there is a very definite comparison and a good one.

Looking at the passenger services revenue per passenger-mile, I see in the case of the CNR that the revenue is \$3.38 but in the case of the CPR it is \$3.92, which is a considerable difference. Now I appreciate that we went into this business of passenger rates and I do not wish to get into it now. We criticized the CPR, as a matter of fact, for being too high. But you are moving quite extensively into the passenger field and I feel that we have an obligation to ask you what your projections are on this. Do you think that there will be greater revenue under this passenger service per passenger-mile that would bring you up more, or what are your anticipations there?

**Mr. MacMillan:** I should point out to you that the difference in the figures reflects in part what we call a difference in mix. In other words, we have in our passenger services a number of shorter operations which are not performed by the CPR—I think immediately of Toronto to Windsor and Moncton to Saint John which does not have services of that nature where in many instances, the earnings per passenger-mile on these services are not quite as high. Their mix is pretty largely confined to trans-continental passengers. That is my first point.

Second our objectives, again in the passenger business, are to maximize the revenue we can derive from the services we offer. There are minor adjustments going on all the time in terms of passenger charges. We try to do this in a rather subtle fashion but our objective is to get as much revenue from it as we can—and I expect that they will grow closer together.

**Mr. Bell (Saint John-Albert):** In other words, you would probably agree that while there is a fairly good comparison and competition between the revenue per ton-mile on freight, in so far as passenger comparisons and full competition is concerned it is just impossible because of the reasons you outlined?

**Mr. MacMillan:** That is right.

**The Chairman:** We will proceed to page eight, Freight Services.

**Mr. Jamieson:** Mr. Chairman I do not want to hold you up but could I ask one final question on the Financial? I just want to



know what the explanation is for the net income from your hotel operations more than doubling from 1965 to 1966?

**The Chairman:** Let us wait until we reach hotels.

**Mr. Jamieson:** I thought then you would tell me that was a Financial item.

**The Chairman:** Let us wait until we reach Hotels, Mr. Jamieson. We prefer Freight Services now. I realize there is some overlapping but I will use my discretion.

**Mr. Byrne:** Mr. MacMillan, I noted from your projections that you are doing a considerable amount of piggyback operations. Would that be long haul, inter-provincial or intraprovincial?

**Mr. MacMillan:** Well, it could be and my guess is that it very largely is because if it is not considerable distance then we cannot offer anything to a highway operator. What we have to do in piggyback is provide a service over a distance at a rate which is as close as we can make it but under his cost to move the same commodity for the same distance. I think, very largely, they are inter-provincial and there is quite a bit of very long haul traffic moved that way.

**Mr. Byrne:** Do you anticipate getting into household moving?

**Mr. MacMillan:** No, not as an agency. We do not have any interest in going to a private residence and packing someone's goods and chattels, but we do carry by piggyback a very substantial volume of household goods which have been packed by a trucking company.

**Mr. Byrne:** I note that trucking companies themselves are doing this.

**Mr. MacMillan:** Yes.

**Mr. Byrne:** A small operator in one area will do the packing and move it to a more central area and then the long haul freight lines take over.

**Mr. MacMillan:** That is right.

**Mr. Byrne:** Do you not think that there should be more attention paid to this operation not only in household goods but in all goods in order to eliminate a lot of this long haul traffic on the railways. Could you not compete more actively than you are presently doing?

**Mr. MacMillan:** Perhaps we could but we try to compete actively. If you are talking about long haul highway operations and transferring it to the railway, we try hard. This is the type of business we like to get because it is something we can handle well. The trailers are delivered to a loading ramp and in many instances they are loaded by the operator or by people familiar with that business, they are locked down on the trailers and we carry them to their destination and reverse the process. It is a good clean type of business and I might say highly competitive.

● (11.40 a.m.)

**Mr. Byrne:** Have you any estimate as to the cut-off distance in so far as competition is concerned.

**Mr. MacMillan:** Offhand I will say that we cannot compete in distances say under 250 miles.

**Mr. Byrne:** Over that it would be logical to have most of the heavy freight on the long haul on the rail.

**Mr. MacMillan:** It would be desirable.

**Mr. Byrne:** What is the reason? Could you give us some indication of why it is not possible now to move into that area in competition with the trucks? Have they a special privilege?

**Mr. MacMillan:** No, no; we compete with them, and very aggressively. The real problem is that some truckers are not interested in piggyback activity. They prefer to move all their traffic over the road. Others are piggyback oriented and the vast majority of their traffic moves by piggyback. I am sure you will realize that there are situations also, in which no rail piggyback operation can provide the service which can be provided on a highway by taking a less circuitous route. We have instances of that in Canada. In the Okanagan Valley, for example, the rail opportunity from the valley to Vancouver is nothing like as great as the highway opportunity, because the distance is much shorter, much more direct and they cover the distance in very substantially less time. Now, in so far as competition is concerned, I think the railways of Canada are competing with, or for, piggyback business as well as they know how to do.

**Mr. Byrne:** I suggest that the reason the truck lines are able to compete and have not become oriented to piggyback is that they perhaps do not pay their equivalent amount of road bed maintenance. Do you think they have any advantage in that respect?

**Mr. MacMillan:** I think that is inevitable. This is the old story of the arguments between railways and highway operators, that we provide our own highway and maintain it, and they on the other hand are able to use the public highways and do not maintain it other than through their taxation on fuel and their licence fees.

**Mr. Deachman:** Mr. Chairman, on page 9 in the second sentence of third paragraph it says:

A recent study, for example, indicates that an increasing amount of bulk traffic such as grain, potash, sulphur and coal will be moving through Pacific ports.

Have you the projection from that study, and can you enlarge upon that sentence in your report?

**Mr. MacMillan:** We have this study but unfortunately, we do not have it with us. We made projections which go quite some years into the future. They arise, very largely, in respect of bulk commodities. The first one is potash, the second is grain and the third is the various ores and coal. I am certain that we go into the mid-seventies on the projection. I would be delighted to give you this part of it but I do not think we have it here.

**Mr. Deachman:** You have indicated your willingness to let us have this information. If there is any way for you to make the figures available before the sessions of this committee close, you would be doing our people on the coast a great service, because this kind of information is very vital to us on the coast.

**Mr. MacMillan:** Let us try and see if we can get it.

**Mr. Deachman:** Can you make a try for that?

**Mr. MacMillan:** Yes, we can.

**Mr. Deachman:** Thank you very much. I will leave that for now and go to the next paragraph in which you speak of delivery of new rolling stock. In a general way, what are you doing in the way of new rolling stock and new equipment to improve grain handling from the Prairies to the coast?

**Mr. MacMillan:** This, as you well know, is a complex question in the beginning. There are many components involved in it, some of which appertain to the railway side of the movement and some do not. Our feeling is that some changes are going to have to be made, first, at the original collection points,

the line elevators in the country. Then, from that follows the problem of moving the grain from the line elevators to an export position, which perhaps is the particular zone in which you are interested at the moment. We have studied this problem and given a great deal of thought to it, and in the fullness of time I would anticipate that grain will be moved on the railway in what we call large covered hopper cars, cylindrical cars which will take considerably more grain than the present box cars. You may or may not know that we have experimented in moving grain in the covered hopper cars. On two or three occasions we have put a number of cars into service and loaded them with grain. They create their own problems. In the first place, the car is bigger and higher, and we could not put them into very many country elevators because the spouts were not high enough above the ground—there was no clearance to permit them to be loaded.

Then, at the other end of the movement, there were only certain elevators which could take these large cars and handle them for dumping. So, assuming that that is a correct analysis of the future of grain handling, we know right away that there will have to be modifications at the line elevator points. We think there should be changes in the concept to some extent here too, and also there will have to be modifications at the terminal elevators to accommodate these large cars. Similarly, they will be very expensive cars and we shall have to be able to obtain a quick turn around on the cars from the point of loading until they can be returned to the point of loading, and do it in the minimum amount of elapsed time.

**Mr. Deachman:** This is very interesting. From what you tell me, is it correct that the problem lies in the development of loading facilities and receiving facilities at the terminal rather than with the railway itself?

**Mr. MacMillan:** Well, the railway is in the middle.

**Mr. Deachman:** What kind of liaison is being developed between your company, the elevator companies and the terminals with a view to developing these facilities? Is this something that is progressing slowly or is it being vigorously pursued with a view to upgrading our grain-handling facilities?

**Mr. MacMillan:** We began this two, three or four years ago, as I recall, and we began to reach some conclusions of our own. Since



that time there have been innumerable discussions with the wheat board, the line elevator companies, the pools and the terminal elevator operators. At this moment the Department of Agriculture and the Department of Transport, as I recall, are combining to have a study made. It is in the throes of being done at this time.

**Mr. Deachman:** I gather from what you say that the pursuit of these objectives is not very vigorous at the moment.

**Mr. MacMillan:** I would say that I am not too sure it has been very vigorous in the past but I think the pace has accelerated in the last six months.

**Mr. Deachman:** Thank you very much. I will have some questions later dealing with the new bridge and tunnel in Vancouver. I see that these are dealt with under Transportation and Maintenance on page 19, so I am through for the moment.

**Mr. Chatwood:** Mr. MacMillan, on your trucking part of the freight service I am not completely familiar with the criterion you use when you decide to move into an area and truck freight. Is your basis generally the idea that as you are bringing it part way by rail you will bring it right to the consumer, or do you find an area where a trucking service could be set up and a profit made if you move in? What is the basis for setting up a truck service?

**Mr. MacMillan:** The basis is to improve the service to the customer, and it takes a different form in different parts of the country.

**Mr. Chatwood:** At the same time, would you go into a given area knowing that you are going to lose money?

**Mr. MacMillan:** Oh, no, we would not do that intentionally.

**Mr. Chatwood:** So generally, if the service was required and you felt that you could provide it you would put in the truck service. Is that right?

**Mr. MacMillan:** Well, I think that is a little too broad. You see, we have certain restraints upon us. If we are going into a full blown highway operation then we have to do it pursuant to rights obtained from the province. If, on the other hand, we are delivering freight by highway which has originated on the railway, then we argue that we are entitled to do that under our Federal Charter.

**Mr. Chatwood:** That is all I have, Mr. Chairman.

**Mr. Pascoe:** Mr. Chairman, Mr. MacMillan answered some of my questions on grain handling. Is it fair to suggest that your comments in the master plan of collecting grain are along the line of the former CNR president, Mr. Gordon, and would you say this is the same plan?

**Mr. MacMillan:** Yes, but there have been so many of these plans discussed from time to time that I would not like to endorse any in broad generality. What I explained was that these are the problem areas and, so far as the rail side of it is concerned, we think we know how to do our part of it.

**Mr. Pascoe:** Well, if I could just follow this up, Mr. Chairman, with a more local question, I would think from Mr. MacMillan's remarks that he envisaged grain moving into larger elevators to be collected by the railways. Would the CNR have running rights to collect grain at the Canadian government elevator at Moose Jaw on the CPR main line?

**Mr. MacMillan:** Do you mean the Government elevator at Moose Jaw?

**Mr. Pascoe:** Yes, right on the CPR line.

**Mr. MacMillan:** No, we do not have rights.

**Mr. Pascoe:** You would not be able to collect that grain?

**Mr. MacMillan:** No.

**Mr. Pascoe:** On page 8 you referred to the movement of grain being increased by 8.2 per cent over what was moved in 1965. Would you say this was because you had more equipment, more box cars, or better utilization of what you had and faster unloading?

**Mr. MacMillan:** Well, there was more moved. I think it really reflected the orders which we were given to move grain, and we have always done our level best to move it. There was a very heavy movement. Of course it is also indicative of the fact that we use the best methods known to us to move the grain.

**Mr. Pascoe:** On page 9 you refer to 20 new locomotives at 2,400 horsepower and 10 of 3,000 horsepower. Is there any limit to the power? Could you go higher than 3,000?



**Mr. MacMillan:** We think they can go higher than 3,000 but there are practical limits to it which flow from the draw bar—the connections between the cars as they go along, and we reach a point in the fullness of time when there is also not enough strength in the couplers.

**Mr. Pascoe:** Do the 3,000 horsepower locomotives weigh much more than 2,400 horsepower locomotives?

**Mr. MacMillan:** Not appreciably, no.

**Mr. Pascoe:** So the same rails would carry them. There is quite a lot of talk about moving solids by pipe line; is your company keeping abreast of this?

**Mr. MacMillan:** Yes, I think we are. We have had a very great interest in solids pipe lines for some years now. We have people in constant contact with all the developments in this field. As you may know, at the University of Alberta a research program has been going on for some time and we are one of a small number of companies which have actively supported it throughout. Although there are technical problems involved in it, we feel that in the fullness of time solids pipe lines will become very important.

**Mr. Pascoe:** Solids such as what?

**Mr. MacMillan:** You see, at the moment it is quite possible to move solids in a pipe line in what is called a slurry—in a liquid such as water, or presumably in oil. It is a kind of a flotation process. But, this by definition does not provide an acceptable medium for potash or, for that matter, grain. A technique has not been developed yet.

**The Chairman:** I had a very interesting query whether or not potatoes could be moved by pipe line, say, from Prince Edward Island to the mainland last night.

**Mr. MacMillan:** They could, but it would be potato soup on arrival.

**Mr. Horner (Acadia):** I notice from page 9 that this last year you purchased a great deal more equipment, both in rolling stock and locomotives. What can one derive from this? Surely you do not purchase that much new equipment every year?

**Mr. MacMillan:** Well, we have bought more, Mr. Horner, but not all that much more. If you have in mind particularly the 3,991 pieces of freight equipment, that is not such a substantial amount. We have about

110,000 pieces of freight equipment; of that number a certain percentage becomes obsolete, are wrecked and have just worn themselves out. We are replacing the equipment retirements with these specialized types. We bought more power, more locomotives than we have for some time.

**Mr. Horner (Acadia):** You mentioned giving a great deal of thought to a new car to handle grain. Have you given any thought to a new car for hauling livestock?

**Mr. MacMillan:** Yes, we have. We have two or three experimental cars in service right now.

**Mr. Horner (Acadia):** Larger, or double deckers?

**Mr. MacMillan:** Yes.

**Mr. Horner (Acadia):** Do you feel these should bring about a reduction in rates?

**Mr. MacMillan:** We hope it will bring about an increase in revenue.

**Mr. Horner (Acadia):** Of these 3,991 new pieces, would any be livestock cars?

**Mr. MacMillan:** Yes, two or three.

**Mr. Horner (Acadia):** Could one assume that in the next year you would be purchasing as much again as you did this last year.

**Mr. MacMillan:** In every likelihood, yes.

**Mr. Horner (Acadia):** In rolling stock but not locomotives?

**Mr. MacMillan:** Yes, perhaps so. This is all specialized equipment. I meant to explain that it comes out in the form of special hopper cars, special box cars and things of that nature.

**Mr. Horner (Acadia):** I notice on the next page, dealing with your trucking companies, you state you made a profit of \$1.4 million in 1966. The standard question here is: can we assume that each trucking company operated at a profit?

**Mr. MacMillan:** No, I do not think you can assume that. The \$1.4 is the total.

**Mr. Horner (Acadia):** Then actually some of your trucking companies did operate at a loss?

**Mr. MacMillan:** Oh, no; I think that is an incorrect assumption.

**Mr. Horner (Acadia):** I asked first, could we assume that each trucking company operated at a profit, and you said no, we could not assume that. Then I said it follows that some of them operated at a loss, and you said that is an incorrect assumption.

**Mr. MacMillan:** I think that is correct, but the answer is that in several instances it has been more convenient for a given one of these companies to become really the chosen instrument and to use the names and the franchises of another one to make for a more economical operation. The result of it is that one company might be said to have benefited at the expense of the other; but in the over-all consideration, when we put them all together, there is a profit of \$1.4 million.

● (12.05 p.m.)

**Mr. Horner (Acadia):** Yes, but from time to time complaints arise from various parts of Canada that the CNR, through its vast resources, its vast financial assets, is in a position to buy out a trucking company. I notice that you have purchased another trucking company and have operated it at a loss or on a very small margin. By operating in this manner are you not a dangerous competitor of the privately-owned trucking companies.

**Mr. MacMillan:** That is not our intention. That has been stated on different occasions but it has never been proven. We operate under the same controls as does any other trucking company, and we conform fully to the control of the provincial regulatory tribunal. We do not operate anything at a loss that we can avoid.

**Mr. Horner (Acadia):** I notice that you have purchased a new trucking company in British Columbia. How many such companies does the CNR now own?

**Mr. Vaughan:** They are listed at the back of the report, Mr. Horner. There are nine altogether, including the new one, D. Chapman and Co. Limited.

**An hon. Member:** Where does that one operate?

**Mr. MacMillan:** It is based in the Okanagan Valley.

**Mr. Vaughan:** The names are listed on page 26 of the report.

**Mr. Horner (Acadia):** Is there any particular reason for, or any particular significance in the purchase of an additional truck-

ing firm? In other words, are you involving yourself more and more in trucking, or was this a particularly good purchase financially?

**Mr. MacMillan:** We thought it was; but, more important than that, Mr. Horner, it cured the situation to which I referred a moment or two ago when I said that no railway can compete effectively between Vancouver and the Okanagan Valley; they have to go to the highway. Our customers in that part of the country were entitled to much better service than we could give them on the railway.

**Mr. Horner (Acadia):** You felt morally obligated to give them a better service, so you went into the trucking business?

**Mr. MacMillan:** We made an improvement in the service that we were able to provide.

**Mr. Horner (Acadia):** Assuming that to be your position, there are a great many other areas in Canada that are not getting really good service from the rail lines. You could buy out the trucking firms in those areas and give them better service there, too.

**Mr. MacMillan:** That may be so, in some cases.

**Mr. Orlikow:** I would like to refer to page 9 where you report that you bought 30 new diesel locomotives last year and that this coming year you propose to buy another 35 which haul twice the tonnage of the older diesels. Is it proposed to increase the number of freight cars pulled by the locomotives? Is that what you mean?

**Mr. MacMillan:** That is not our intention. At the moment we have trains on which we use two locomotives—two units, as we call them. These could each be 1,500 hp. units, so that there is a total power potential of 3,000 hp. on that train. A single 3,000 hp. unit would be used in substitution for the two units now in service.

**Mr. Orlikow:** It will not mean an increase in the number of cars hauled?

**Mr. MacMillan:** No, not necessarily. It is just the providing of power in the trains on what we think is a more economical basis.

**Mr. Orlikow:** But in the last 10 years there has been a pretty substantial increase in the number of cars being used?

**Mr. MacMillan:** Yes.

**Mr. Orlikow:** Approximately what would that increase be?

**Mr. MacMillan:** If you mean per train, we have that figure somewhere. We also have the figure for tonnage per train. On page 39, Mr. Orlikow, you will see some statistics listed, cars per train—loaded, cars per train—empty, and so on. You must bear in mind that these are general averages. They might seem low, I suppose, in some respects, but also bear in mind the 109 pieces of equipment and the thousands of trains that are running. This is just a general average to bring out a statistic.

**Mr. Orlikow:** What would be the average, let us say, when you are moving grain? I notice they are moving now to Winnipeg. What would be the average number of cars, say, from Winnipeg to the Lakehead?

**Mr. MacMillan:** It is rather difficult to give an average, but I can tell you that we did an experiment once in which we pulled a train of grain two miles long. We thought this might be of advantage in the future, but we got into so much difficulty with the municipalities on level crossings that we had to discontinue it.

**Mr. Orlikow:** You probably received some complaints from me.

**Mr. MacMillan:** Yes, we did; because although the train was in motion the traffic was blocked for quite a long time.

We move grain in 100-car trains and sometimes as high as 150-car trains, depending on the railway over which it has to pass.

**Mr. Orlikow:** That would be at least one-third longer than they were, say, 10 years ago?

**Mr. MacMillan:** Yes, much longer.

**Mr. Orlikow:** What does this mean in terms of the number of people working the train? Would it be the same now as it was 10 years ago?

**Mr. MacMillan:** Yes, that is right.

**Mr. Orlikow:** Therefore, there has been a reduction in staff in relation to the number of cars or the tons of freight moved?

**Mr. MacMillan:** That is the result; but we like to think of it as an increase in productivity.

**Mr. Orlikow:** I am not objecting; I just want to get it on the record, Mr. Chairman,

because we still hear talk about feather bedding, as it is called. I suppose that the 3900 pieces of special equipment that were ordered last year will have the same effect? These will enable you to move more tonnage at less cost?

**Mr. MacMillan:** Yes.

**Mr. Orlikow:** This may not be the right place to ask this question because there are also people working in passenger service and so on, but what has happened, say in the past 10 years, to the number of employees who work primarily in moving freight? Is the number up or is it down?

**Mr. MacMillan:** I would not expect that there is very much variation in the number employed on the trains. If we were to count everyone associated with the movement of freight the number is probably down, but that is really a horseback guess. The number of people working on passenger trains is up.

**Mr. Orlikow:** You estimate that the number of people running the freight trains has decreased during the last 10 years?

**Mr. MacMillan:** No; my guess is that the number of people actively engaged in train operations is about the same, because we have provided more trains; and that the number of people engaged in the collection of freight and the delivery of it and in matters of that kind, is lower than it was 10 years ago.

**Mr. Orlikow:** What has been the increase in the tonnage moved?

**Mr. MacMillan:** The tonnage may be up over the last 10 years. I do not know.

**Mr. Vaughan:** If you will look at page 40 you will see various statistics about freight revenue ton miles and freight revenue per ton mile.

**Mr. MacMillan:** Yes; you will notice that in 1956, for example, we had 41,935,000 ton miles, and then in 1966 we had 49,643,000; so we are up approximately 7.5 million ton miles.

**Mr. Orlikow:** Do you have a figure for the cost of moving a ton of freight a mile?

**Mr. MacMillan:** No; do not have it, if we did and we would not like to produce it because every shipper of freight in Canada would like to know how much it costs us to move a ton of freight.



**Mr. Orlikow:** I will not press you on that. Do you have a figure on the cost of labour for moving a ton mile?

**Mr. MacMillan:** That is the same question.

**Mr. Orlikow:** No, because there are many factors involved.

**Mr. MacMillan:** Because the overall question involves costs I would prefer not to give that figure.

**Mr. Sherman:** I take it, sir, that you foresee a continuing improvement in the railway's financial position in 1967?

**Mr. MacMillan:** That is our hope.

**Mr. Sherman:** Could you cite two or three main factors, already manifest in your operations, which lead you to conclude that this is a valid and legitimate hope?

**The Chairman:** Are you referring to freight, sir?

**Mr. Sherman:** Yes.

**Mr. MacMillan:** There is nothing that I can think of, at the moment, that in itself is of very great significance. It is really the sum of a very substantial number of smaller things.

For example, in Winnipeg there is the hump yard at Symington which has been in operation for a couple of years. This is a very large automated plant and as is common to all things of that nature we do not reap the greatest economies the day we push the button and put it into operation. There are improvements flowing from that and when we multiply these throughout the system we are encouraged to think that in the future it will cost us less to do a given volume of business.

**Mr. Sherman:** Sir, do plans for, and projections of, the abandonment of certain branch lines have any great significance in this forecast?

**Mr. MacMillan:** They are of significance, but, again, it would be difficult to say how much.

**Mr. Sherman:** I ask my next question at the risk of being ruled out of order by the Chairman. I do not see anywhere in the report—unless I have missed it completely—any reference to projected abandonments of certain selected branch lines in the West.

**Mr. Vaughan:** This report, Mr. Sherman, was, of course, written covering the year 1966, and the National Transportation Act, then Bill C-231, was still in the committee stage and being discussed in Parliament. Therefore, we did not think it appropriate to mention that in this report.

**Mr. Sherman:** I accept that, sir, but on that basis, I ask the Chairman's indulgence in my pursuing this line of questioning.

**The Chairman:** Mr. Sherman, Mr. Korchinski is not a Member of the Committee but he is also interested in a certain branch line abandonment. I pointed out to him that the railways dealt with branch line construction on page 20. Perhaps you would raise your question then. It is an important question, but I think it could be left until we are discussing branch lines.

**Mr. Sherman:** All right; and perhaps you will give me the opportunity to participate then.

**The Chairman:** I will.

**Mr. Sherman:** Thank you.

**Mr. Bell (Saint John-Albert):** May I ask a question on containerization? I think it would be appropriate here? It is in the context that most of the major ports in Canada have been told that they should start moving towards this system there is, of course a tremendous investment in the port aspect of containerization. Where do you feel that your responsibility begins and ends in this? How far have you gone? What are the problems when the containers are delivered at ship side? What do you foresee in this, particularly within the narrow context that I have mentioned?

**Mr. MacMillan:** We are very conscious of containerization. We inaugurated probably one of the first systems in North America, if not the first, in the movement of traffic from the mainland to Newfoundland. That is where we received our initial experience in it. Since then we have been implementing our containerization program and proceeding with it very quickly.

You may recall that we showed some containers in the film. The great advantage of the container is the elimination of the multiple handling of various commodities; once they are put into the container it is only a question of handling the container. We think this system will grow. We think this is a most important part of our business and we have an active organization dealing with it.

We have a program to buy more containers and more of the specialized flat-cars to handle them as well as the flat-bedded trucks to do the distribution.

In the fullness of time we also visualize transoceanic container operations. This is very popular in the North Sea, as you know. I think it is at Rotterdam that they have a very extensive containerization program.

**Mr. Jamieson:** May I ask a question?

**The Chairman:** I do not think Mr. Bell has finished.

**Mr. Jamieson:** My question deals with the subject raised by Mr. Bell.

You mentioned the Newfoundland service. First of all, have the results of containerization been to your satisfaction and, secondly, will the introduction of the rail car ferry make any substantial difference in the use of this container system?

**Mr. MacMillan:** I do not think it will, Mr. Jamieson. I think we will continue to use containers in appropriate areas.

**Mr. Jamieson:** In other words, you put the containers in the freight car and then move the freight car?

**Mr. MacMillan:** That is right; or put them on flat-cars.

**Mr. Rock:** May I ask a short supplementary question on the specifications for these containers? Are there in existence any federal regulations governing their make-up?

**Mr. MacMillan:** You mean the physical construction of them?

**Mr. Rock:** Yes; in other words, so that they will all be made in the same way.

**Mr. MacMillan:** No; there are no specifications of which I am aware.

**Mr. Rock:** Do you feel that there should be such a federal regulation so that these containers can be used in any area of Canada and possibly in Europe?

**The Chairman:** You should speak to the Registrar General about that, Mr. Rock.

**Mr. Rock:** This is important to the CNR.

**Mr. MacMillan:** One of the problems that will immediately arise if containerization advances and I think it will, is that we will get into international movements, both across the

border to the south and in international shipping. Standardization by some federal agency would not, perhaps, solve the problem. I think that merits of design will bring about a degree of standardization.

**Mr. Bell (Saint John-Albert):** Can you give us any further figures on the new equipment for next year? The honourable Member from Pictou wanted to be sure that this question was asked. He always likes to know what you have in mind.

**Mr. MacMillan:** For 1967?

**Mr. Bell (Saint John-Albert):** Yes.

**Mr. MacMillan:** Yes, we have those figures in the budget. There is quite a comprehensive list.

**Mr. Bell (Saint John-Albert):** I think he wanted to know where the equipment would be—

**Mr. Vaughan:** He really wanted to know whether Trenton had some orders.

**Mr. Bell (Saint John-Albert):** Exactly; as a Nova Scotian, Mr. Vaughan will know what I mean.

**Mr. Vaughan:** I will look that up for you.

**The Chairman:** We are now dealing with passenger services. During our hearing of the CPR we dealt at some length with the CNR passenger services.

Mr. O'Keefe's is the first name on my list.

**Mr. O'Keefe:** Mr. MacMillan. As, I am sure, did the other Members of the Committee, I thoroughly enjoyed, and was impressed by, your presentation. Certainly it reflected progress, imagination and confidence in this Centennial year. Of course, I particularly enjoyed the references to my own province. We in Newfoundland, as you know...

**The Chairman:** Mr. O'Keefe, we do not want any statement; we want questions on passenger services. We are happy to know that you represent a riding in the great Province of Newfoundland. It will have passenger problems, too, I am sure. But would you please get to your questions.

**Mr. O'Keefe:** Sir, we have had a passenger service for nearly 100 years. Do you not agree that this year is a particularly unfortunate one in which to announce, as you did, that the passenger rail service is to be abandoned and buses substituted? Would you not agree



that this is a retrograde step, remembering that this is also Centennial year in Newfoundland?

● (12.25 p.m.)

**Mr. MacMillan:** You are underlining a difficulty that we always have. If we give a great deal of notice of our plans, we are really criticized for having done so; and if we do not give much notice we are criticized for that also. All we have said to date about the Newfoundland operation is that it is our intention to apply for a highway franchise to operate a bus service; and if it is granted then we shall apply for abandonment of the rail passenger service.

In the first place there are two very large "ifs" there. One is that we have to be given the highway franchise, and the second is that we have to be permitted to terminate the rail passenger service.

We never did contemplate doing it in Centennial year; it was postponed until next year. We did not think it would come into effect next year, and from a selfish point of view we would have very much preferred to have continued with our planning and finalize it shortly before the effective date. However, I can assure you that we would have been jumped upon from a great height if we had left it until then. What we have tried to do is to give as much notice in advance, variation and discussion as are possible.

**Mr. O'Keefe:** Did you not say that there would be 150 to 200 men unemployed when this changeover took place?

**Mr. MacMillan:** I do not think I, or anyone on our behalf, has said that any specific number of men will be unemployed. It becomes a question of doing our best to relocate them. Today we have no employees engaged in any highway operation in Newfoundland. Therefore, we shall have to train drivers and mechanical and maintenance personnel, and obviously the place for us to begin is with our own employees.

Similarly, in the period which elapses from the day we first start to talk about this publicly until it becomes effective there will be many opportunities for these people to transfer and stay in the employment of the company, or come to the mainland if they so wish.

**Mr. O'Keefe:** In making the decision to abandon the passenger service, did you consider the possibility of the short haul since

this train is running from St. John's to Corner Brook? Would that be just as uneconomical?

**Mr. MacMillan:** No; they are better than long hauls.

**Mr. O'Keefe:** Before you made the decision did you also consider the possibility of using new and more luxurious equipment as you have in other areas of Canada?

**Mr. MacMillan:** Yes, we have thought about that, but our travel statistics do not indicate that there is sufficient density of travel to make it reasonably practical to do it.

**Mr. O'Keefe:** You have thought about it. Have you done anything about it?

**Mr. MacMillan:** We have thought about it, yes. We really think we can give a better service by highway than we could by rail.

**Mr. O'Keefe:** What happens in winter?

**Mr. MacMillan:** We will still give a better service.

**Mr. O'Keefe:** That is all for now, Mr. Chairman.

**Mr. Pascoe:** Mr. Chairman, I got my question across fairly well on passenger service, but on page 11 it is stated:

In areas where rail passenger service is clearly uneconomic the Company's objective requires that it be discontinued...

Does that mean "uneconomic" in the sense of a straight dollar and cents assessment, or do you not think that the railway owes something to the community and should provide a service?

**Mr. MacMillan:** No; I think that is directly pursuant to the legislation.

**Mr. Pascoe:** Straight dollars and cents.

**Mr. MacMillan:** The legislation provided that where a service was uneconomic then the railway was under a responsibility—I have forgotten the exact wording—to apply either for abandonment or for a subsidy representing 80 per cent of the loss.

**Mr. Pascoe:** I am now talking about service to the community and this question has been asked previously: Would there be a possibility of communities operating a rail liner feeder service to the main points of the CNR, and would they be allowed to run over your lines?



**Mr. MacMillan:** No, they would not; but if the proper circumstances prevailed we would run the rail liner at their expense. We would be quite open to discussions directed to communities being given all the revenues flowing from such an operation and paying all the expenses.

**Mr. Pascoe:** Would you have rail liners available for that?

**Mr. MacMillan:** It depends; we have 48 of them now, I think, and they are all in active service.

**Mr. Pascoe:** I just want to commend the CNR again for the positive approach of assuring us that by giving good service they can increase passenger travel.

**Mr. Rock:** At the outset, I would like to take this opportunity of congratulating your officers for making the research effort first into the Rapido and then into the turbo-jet.

Where will the turbo-jets be in service?

**Mr. MacMillan:** In the initial stages, with the equipment available to us, we plan to operate between Montreal and Toronto. This is where the great density of travel exists.

**Mr. Rock:** If that is a success have you any intention of having this service between Montreal and Ottawa?

**Mr. MacMillan:** Yes, I think that is a very real possibility.

**Mr. Rock:** Let us consider the commuter service, particularly in the northern part of Montreal, from say, Pierrefonds and Roxboro. I have asked this question in the past. However, now that your research has resulted in rapid trains I would ask if you have any intention of considering a commuter service over a longer distance so that it would be possible for labour in areas such as Ottawa to get to Montreal. With this new development there is no reason for a person from Ottawa spending the evening in Montreal if he has to do some business there. He could use one of these fast trains. In addition, people could possibly travel from Ottawa to work in Montreal, or from Valleyfield to Hull.

Mobility of labour is needed these days and advantage should be taken of the high speeds resulting from your research.

What are your thoughts on speed as it applies to commuter service on long distance hauls in the future?

**Mr. MacMillan:** This, again, becomes a question of density of movement. What is very important in a problem of this kind is the two way movement. The great advantage of the Toronto-Montreal service is that there is a similar volume moving between Montreal and Toronto and between Toronto and Montreal in the reverse direction.

The commuter business is difficult, as you know, because it represents an enormous surge in the morning inbound and then the reverse of that in the evening. It is a very difficult service to perform economically.

**Mr. Rock:** Mr. MacMillan, your company seems to be very interested in research into faster trains. Have you given any thought to the monorail? Have you also been investigating that as a possibility?

**Mr. MacMillan:** Oh, yes. We have been investigating monorails for years now. We have comprehensively examined every monorail that I know of in the world. We have had a look at them and tried to determine whether or not they would fit into our pattern. That may come about some time, but at the moment we believe that the indicated course of action is on our own rails because we have them.

However, it is quite wrong to shut one's eyes to the possibilities of the monorail or the minirail such as we have at Expo, or the hovercraft. Something is going to happen with these forms of rapid transit and we plan to be *au fait* of everything that goes on.

**The Chairman:** Mr. Deachman, you are next.

**Mr. Deachman:** Mr. MacMillan, I understand that the introduction of the turbo is being long delayed. Could you tell us what the problems are and when you hope to overcome them?

**Mr. MacMillan:** It really is not our problem; it is the problem of the manufacturer. You are correct in your statement that they are going to be delayed. Our original hopes were to inaugurate the service sometime during the mid-summer, perhaps in the middle of July, but it is not going to be possible to do that now. The prototype of the equipment will not be operating until about that time. It will be mechanically complete, but with nothing done inside at all.

It has to undergo testing by the designers and the manufacturers, and they think that will take about six weeks. At the conclusion

of their testing we will be given the first set and we will have to test it, because our requirements and those for which they test it may not be exactly the same. Therefore, the probabilities are that we will not have a fully completed train under test until late in September.

We are hopeful that at the timetable change date, which is at the end of October, we shall be able to put them into revenue service. Prior to that date, when any modifications that we think are required have been made, it is our present intention to take one out on the line and show it to the people of Canada. In the course of this, we would like to bring it to Ottawa so that members may have a ride in it. This would be well in advance of the first paying passengers being accommodated.

**Mr. Deachman:** How is this delay going to affect your revenue? You must have anticipated a great deal of revenue during the course of Expo, which you are now going to lose. Is this in any way related to penalty clauses with the manufacturer?

**Mr. MacMillan:** Yes, the delay has had an impact on our revenues. We have had to take remedial action. A few evenings ago we inaugurated another daily Rapido, which we are calling the "Expo Extra", between Toronto and Montreal and that will give us three high-speed trains between Toronto and Montreal a day. We are trying in this way, to take up the slack.

When we had the new turbos in service it was our intention to remove some of the conventional trains, and we will not be able to do that; we will have to maintain them throughout and do our best to cope with the demands which are upon us.

**Mr. Schreyer:** Mr. MacMillan, you said that had you received delivery from the manufacturer on time you would have removed some of the conventional trains. What would have been done with them?

**Mr. MacMillan:** They are continuing to operate.

**Mr. Schreyer:** Yes, I understand; but I believe you said that had you received delivery on time you would have removed from service some of the conventional trains. What would you have done with them?

**Mr. MacMillan:** We would have put the equipment into service elsewhere in Canada.

**Mr. Schreyer:** But as it happens, they are continuing in service on the old run?

**Mr. MacMillan:** That is correct.

**Mr. Schreyer:** That raises the question whether it was an economical proposition to divert, or to remove completely from service, certain units just to make way for the Rapido.

**Mr. MacMillan:** Had we been able to do that we could easily have used this equipment in other service, or in special movements.

One of our problems is that there are substantial numbers of special parties going to Expo, and some time ago we were able to make commitments to move them. As far as I know, we have discharged every commitment up until now. However, there were other movements which we would have liked to have been able to assume, and we would have used this equipment for that and for the purpose of adding a car here and a car there to existing services. We are having to use our ingenuity, and to a very real extent we are going to be handicapped by not having obtained these new trains.

**Mr. Schreyer:** Simply because of a shortage of equipment arising from this unforeseen delay?

**Mr. MacMillan:** That is right.

**An hon. Member:** And a greater demand.

**Mr. Schreyer:** Mr. Chairman, my other question relates to public relations on the part of the CNR. I do not know if this is the appropriate time...

**The Chairman:** Perhaps we could leave that until we are dealing with labour relations.

**Mr. Schreyer:** No; it has nothing to do with labour relations.

**The Chairman:** Has it to do with public relations?

**Mr. Schreyer:** Perhaps I could put it now.

For the past decade and more, as a result of new railway technology your trains have been becoming longer and longer. This has had some direct effect on the motoring public using arterial streets, trunk highways and so on. In some areas the moving and shunting of trains and the making up of them on the outskirts of cities and railway stations have caused tie-ups of a considerably longer time than was the case in the 1940's or the 1950's.



I believe there are regulations under the Transport Act which limit the amount of time that a railway can block an arterial street or trunk highway.

I do not suppose anyone is really forcing this as an issue, but is this a problem in some metropolitan areas and cities across the country? I know it is in eastern Winnipeg.

**The Chairman:** In Hamilton, too, Mr. Schreyer.

**Mr. MacMillan:** There is a provision in the Railway Act which limits to 5 minutes, I think, the time that a train can block a crossing. If that is exceeded we are liable to a penalty. It might surprise you to know that this is exacted periodically. We are summoned and we have to pay the fine. It is a very real problem. That is what I was referring to when I said that experimentally we ran a train of grain two miles long. We blocked all the crossings in Western Canada and we did not do it again. So we have a real problem in trying to make up our trains and move the traffic and, unfortunately, we are not always able to do this at times of day when the public does not need the crossings too. So there are these problems.

**Mr. Schreyer:** Do you find that the railway is, as a result, involved in more and more actual litigation with municipalities?

● (12.45 p.m.)

**Mr. MacMillan:** Oh no. I do not think so. I think most people are annoyed but understanding of it. I am annoyed sometimes myself; I want to get across a crossing and I cannot. It is annoying; there is no doubt about that. We cannot do much about it.

**Mr. Schreyer:** Are discussions taking place with a view to increasing the number of overpasses and so on?

**Mr. MacMillan:** Yes, they are going on all the time.

**The Chairman:** Gentlemen, that completes Passenger Services. It was my intention to adjourn at one o'clock but could we turn to page 20 and deal with this branch line matter. I know that Mr. Korchinski and Mr. Sherman have questions. I understand there is a ready answer available for branch line abandonment. Mr. Korchinski would you like to proceed.

**Mr. Korchinski:** I wish that it was as simple as your giving me a fast answer. However, I have a few questions on one

particular problem with which I think Mr. MacMillan is quite familiar. I have had considerable correspondence with the Department; I have copies of telegrams which Mr. Toulmin sent out to the Board of Trade, and this might take a little time.

With your permission, Mr. Chairman, I would like to deal with the specific problem of branch line abandonment by, I think, erosion in a sense.

**The Chairman:** Perhaps you could just ask the witnesses questions on the area involved and they can explain the situation. Although we are not dealing with branch line abandonment as such now, I understand that the CNR, is going to follow the new statute regulations. It was not my intention that we should get into an hour-long discussion on one particular problem at this time because we have dealt with this matter very thoroughly when dealing with the national Transport Act. Perhaps you could just bring your particular case to the attention of Mr. MacMillan and he could discuss it with you. I do not think we require any background.

**Mr. Korchinski:** Mr. Chairman, this problem originated only within the last month. I want to just give you very briefly an indication why this problem has arisen. I think this is a very convenient time to put my questions to Mr. MacMillan because he is now before the Transport Committee. If he is in a position to give answers now it could save a lot of time, as well as grief in the community.

Specifically, the problem is that the bridge burned down and the railway, up until now, apparently has not decided to rebuild the bridge or a trestle. I understand that the railways have decided to conduct studies. What is the purpose of the particular study to be conducted at Chelan Subdivision just out of Porcupine? I was hoping to be able to speak to them privately before I brought this up but if they are prepared to answer now, that is fine with me.

**Mr. MacMillan:** Unfortunately, I am not at all familiar with this problem. I can give you this little hint though; no railway in Canada has the right to terminate service on any branch line of its own volition, and this is what the Board of Transport Commissioners has been charged with supervising for a long long period of time. I would anticipate that in this particular case the trestle which was destroyed has had to undergo some studies to determine what we are going to do about filling the gap, whether it would be finished



by rebuilding the trestle in kind, or trying to find a steel subsection that we could put in place of it, or perhaps filling it and putting in a big culvert. These are the types of questions which arise in my mind right away, and we would be delighted to really find out the particulars and provide you with them.

**The Chairman:** Mr. Korchinski, I wonder if you could discuss this perhaps with Mr. Vaughan or other CNR officials when we break at one o'clock? They could probably help you out at that time. All right?

**Mr. Korchinski:** Yes, but I had hoped to be able to discuss it with them so that they may be able to provide further information.

**The Chairman:** Well, they are here, so you talk to them while we have them right here. Mr. Sherman, you are next.

**Mr. Korchinski:** Mr. Chairman, may I be permitted at the end of our deliberations to ask a few questions?

**The Chairman:** We are going to adjourn in a few minutes. Why not meet with them now? I think that would be faster for you and for them, and you will probably get your problem solved faster that way. Mr. Sherman?

**Mr. Sherman:** Mr. President, we on this Committee have been supplied with maps of the Prairie rail network that is guaranteed to January 1, 1975. Have we, or will we be supplied with maps of the projected or hoped for abandonments that the CNR is going to advance before the new Canadian Transport Commission?

**Mr. MacMillan:** The procedure to be adopted, Mr. Sherman, is that in the foreseeable future, and I would hesitate to tell you the date, the Board of Transport Commissioners is going to call together all of the parties at issue in this problem and at which time there will be available comprehensive maps of what Canadian National has outside of the guaranteed network, and presumably what the CPR has outside, and then the whole matter and the method of proceeding will be discussed and, presumably, agreed upon. Our whole program at the moment is in a complete state of limbo; we are waiting for the next step and, or course, we will be proceeding under the new law.

**Mr. Sherman:** Is it correct that this meeting you refer to, sir, is the now highly-touted meeting of August 1.

**Mr. MacMillan:** It could be.

**Mr. Vaughan:** Yes, I think that is the pre-hearing conference which the board has set up to deal with the procedures and priorities in dealing with what we call the non-protected lines.

**Mr. Sherman:** Because of the anxiety in the west, particularly on the Prairies, over some of these projected abandonments and because of the integral part that these lines play in the economy and the life of the west there is some agitation, as you know, to have the meetings held in the west rather than here and I wonder if you could tell the Committee, at least unofficially, what the CNR's position is?

**The Chairman:** Well, that is not up to the CNR, Mr. Sherman; that is up to the Board of Transport Commissioners, perhaps you would write or speak to the secretary of the Board of Transport Commissioners.

**Mr. Sherman:** But presumably the CNR would carry some influence as far as that decision was concerned.

**Mr. MacMillan:** I think I can say to you, if it helps, that we will go any place that we are invited to go.

**Mr. Schreyer:** I have a supplementary.

**Mr. Sherman:** I have one more question, Mr. Chairman.

**The Chairman:** I am sorry, Mr. Sherman.

**Mr. Sherman:** Mr. President, if the new act is not proclaimed by August 1 what will happen then? Is it correct that this meeting on abandonment considerations will be held under the terms of the old legislation?

**Mr. Vaughan:** Well, has Part V of the act not been proclaimed? That part concerns those sections, the amendments to the Railway Act, 314 A to J, I think they are, which refer to abandonments. Also, we have an Order in Council issued to deal with procedures under the old Railway Act Section 168, and this is what the Board of Transport Commissioners, still clothed with the powers by the new legislation, is going to do—have this pre-hearing conference, and they are the body still authorized now by statute to deal with this problem. The other parts of the act are not proclaimed—I think Part I and other parts—but nevertheless the Board still retains jurisdiction.

**Mr. Sherman:** But it is your understanding, sir, that this meeting we are talking about will be held under the terms of the new act, Bill C-231.

**Mr. Vaughan:** Well, we just received the Board's issue like everybody else. I just picked it up yesterday when it arrived. For instance, it starts off:

Regulations respecting applications for abandonment of lines of railway under Section 168 of the Railway Act were made by the Governor-in-Council by Order-in-Council P.C. 1967-569... These Regulations direct the Board to consider the matters referred to in subsection (3) of Section 314C in dealing with abandonment applications under Section 168.

So really when I talk of these sections, they are now all integrated into the new transportation Act. Remember, it amended certain sections of the Railway Act and retained certain sections of the Railway Act; so they are really dealing with the new Act as it now stands.

**The Chairman:** Mr. Sherman, perhaps, as I say, you could get in touch with the Secretary of the Board of Transport Commissioners because that question is more pertinent to him.

Mr. Cantelon, do you have a supplementary?

**Mr. Cantelon:** I was just going to say that this is not my interpretation of what has been done by this Privy Council Order. Perhaps I am quite wrong but I thought under the terms of that Privy Council Order that Section 168 from the old Act was still being applied to the abandonments that are not guaranteed to January 1 and that procedures under Section 168 of the old Act would be the procedures that would follow and this, of course, would not mean that the protection that is given to these areas under the new Act would be in effect for the abandonment areas. In other words, what is going to happen is that there will be no particular body of Commissioners with technical personnel who can investigate the thing thoroughly, as they would do under the new Act, which we thought was protection that the new Act would provide for these abandonments.

**The Chairman:** I do not think it is fair to ask the CNR, which is really a party. I think you should get in touch with the Secretary of the Board of Transport Commissioners or maybe get an answer from the Minister.

**Mr. Cantelon:** I quite agree with that, Mr. Chairman, but the point is that I thought that we were left with an unfortunate implication that the new Act will still apply.

**The Chairman:** Perhaps it could be clarified by the Board. Mr. Schreyer?

**Mr. Schreyer:** Mr. Chairman, I think it is fair to ask this question of Mr. MacMillan. Is it not correct that during the time of the processing of the transport legislation all applications for abandonment were withdrawn.

**Mr. MacMillan:** At the time of the processing of the legislation no application was active.

**Mr. Schreyer:** Right.

**Mr. MacMillan:** At the time that the guaranteed network was produced, for all practical purposes any applications which were in respect of lines on that map were really cancelled by statute. The other applications remain inactive. They are in exactly the same position now, so far as I know, as they were at that time. The only thing is that we have tried to bring the arithmetic more up to date.

**Mr. Schreyer:** This was really what I was asking about. At the present time the CNR has not reactivated any of its applications for abandonment with respect to lines lying outside of the protected grid. You have not reactivated them and you have not filed any new applications for abandonments. Is that the fact of the matter?

**Mr. MacMillan:** Yes.

**Mr. Vaughan:** Applications in respect of those lines that were outside the protected grid, remain with the Board on file. I really just want to give you information, I am not speaking for the CNR, but as I recall it, the announcement of the Minister last September, when he produced a map here with the protected grid and also that statement, I think, indicated that those outside the protected grid could be proceeded with under Section 168. The CNR had many of those applications on file with the Board but we had asked the Board not to proceed with them pending the passage of the legislation and whatever the regulations were. Now many of those applications would have been on file with the Board maybe one, two or more years, so what we did then with those applications and are now in the process of doing, as Mr. MacMillan has said, is revising those applications and bringing the statistics



and the arithmetic up to date. This pre-hearing conference in August, as I understand it and I just read it quickly, is to deal with the priorities, procedures and methods of those applications which are permitted to be abandoned under the procedure that they will adopt. That is my understanding.

**Mr. Schreyer:** So that you have not really reactivated these applications at the present time.

**Mr. Vaughan:** As I say, we have brought the information up to date and we are really waiting to see how the established authority wants to proceed.

**Mr. MacMillan:** The status quo for all practical purposes is exactly the same as it was.

**Mr. Schreyer:** But, Mr. Chairman—and I realize Mr. MacMillan is perhaps not in a position to answer, except perhaps if he would like to volunteer some opinion—I believe that today or to-morrow a hearing is being held on a CPR application for abandonment which seems to be in violation of the undertaking that all—

**The Chairman:** Mr. Schreyer, that is a matter for the CPR and the Board of Transport Commissioners. I do not think it is fair for the CNR to get involved.

**Mr. Schreyer:** I have a question which has nothing to do with branch lines.

**The Chairman:** Well, we will hold that until after. Mr. Korchinski?

**Mr. Korchinski:** I have just one brief question, if I may, while we are on the subject. As you see it, will the CN continue to provide the same type of service as they have until 1975? As you recall, the Minister announced that certain lines were to be frozen and continued until 1975?

**Mr. MacMillan:** On the lines that are on that map?

**Mr. Korchinski:** On lines that were frozen or protected.

**Mr. MacMillan:** Yes. I am not too sure I understand your question. There are two kinds of lines. In the first place, we have to provide the service because we cannot terminate it unless the Board has said we could. The second thing is that on those lines that are guaranteed on the map we shall provide identically the same service. Now that is not good; it will be as good service. We will do the job that has to be done on it—I will put it that way, sir.

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**The Chairman:** Gentlemen, we will adjourn now until 3:30 p.m. or right after the question period. We will start with Personnel and Labour Relations. After that we have System Activities and then the Auditor's report, and we hope that we can clean all these up this afternoon.

## AFTERNOON SITTING

Thursday, June 22, 1967

• (3.30 p.m.)

**The Chairman:** We are on the Personnel and Labour Relations part of the report. The officers of the CNR have provided an answer to Mr. Deachman's question. May I have a motion to have it printed as an appendix to the proceedings?

**Mr. Deachman:** Mr. Chairman, if it is not too lengthy perhaps we could have it read. I think the Committee would be interested in hearing it.

**The Chairman:** We will have Mr. MacMillan read it and then we will move on to our new subject.

**Mr. MacMillan:** These, Mr. Chairman and gentlemen, are estimates of course. We hope they will materialize but they have to be taken as estimates. The first commodity is grain. We are talking here about the movement to North Vancouver which, for all practical purposes, is where all of this bulk traffic on the Canadian National goes. There is something of the order of 5,000 cars. We estimate that by 1975 this will increase to about 30,000 cars. So there will be an increase in the neighbourhood of 25,000 cars of grain. This again is in contemplation of wheat crops of the order of magnitude which the Wheat Board tell us we are to expect to have. Potash at the moment is moving in the order of 9,000 cars and we estimate by 1975 the movement will have increased to 40,000. So there will be an increase here, in round figures, of 31,000 cars. There is very little sulphur at the moment. It is a minimal amount of carloads but we think that by the same date of 1975 there will be something of the order of 7,000 cars. At the moment there is very little coal moving on our line to this destination but we anticipate by 1975 there will be something in the order of 20,000 cars per annum. That is the information.



**Mr. Deachman:** Thank you very much, sir, for your effort in getting this information. I think it indicates to both British Columbia members and those from the Prairies that we have ahead of us some boom years in the movement of bulk commodities and with prosperous times, if your predictions are borne out, maybe the West will take over.

**Mr. Rock:** Mr. MacMillan, again with regard to the future speed of trains and the relations between the unions, are you now negotiating with the officials of the union before putting these fast trains into operation with regard to the time it takes these trains to travel and with regard to the agreement you have today with the union?

**Mr. MacMillan:** Yes, we have been having discussions with the running trades operating between Montreal and Toronto for I would say vaguely a year—I may be out a few months one way or the other—appertaining to the introduction of turbo trains. Prior to that there were very lengthy discussions with them regarding the introduction of the Rapido train. These conversations are continuing in character. They are completely familiar with all our plans and we have worked out any problems which we have with them.

**Mr. Rock:** The problems are worked out properly and you are satisfied with the net result?

**Mr. MacMillan:** Yes, and we are quite satisfied.

**Mr. Jamieson:** Mr. MacMillan, I checked this morning on the very dramatic changes you are proposing to make on the North Sydney-Port aux Basques service. I have had two conflicting reports and I think these are of genuine concern to the personnel involved. The one arose in February at a meeting in Port aux Basques when officials from CNR indicated that there would be no lay-offs; indeed, indications were that there would be some increase in the amount of employment. Since that time a memorandum has been circulated suggesting that there will be lay-offs of a fairly substantial nature. I appreciate you cannot know all of the details of every phase of the individual operation but do you have anything to indicate what the forecast position is likely to be either in Port aux Basques or anywhere in Newfoundland as a result of these quite revolutionary changes?

**Mr. MacMillan:** Sir, we have been dealing with the personnel problem arising out of the operational changes and, as I am sure you know, we have had continuing conversations with the labour organizations and the men themselves at both Sydney and Port aux Basques. We have had a personnel officer stationed there to provide them with really consulting services. In addition to that and in collaboration with the Department of Manpower here in Ottawa we have been conducting courses at North Sydney trying to help these people help themselves. A great deal of activity of this nature has been going on. Frankly, I do not know of the interview to which you referred a little while ago but inevitably there will be a dislocation here because the pattern of the movement of the traffic is going to change radically. Again, we get right into what is the philosophy of the Canadian National. It is to minimize the impact of change on the employees; to give them as much notice as is humanly possible to do and to take, in collaboration with them, such steps as are available to us to minimize the effects of change. They have been offered opportunities to transfer from these locations to other points on the system, and some may do this. One of the real difficulties we experience frequently is that people do not wish to move, which presents us with a very serious problem. If we could get them to move then we can provide them with alternative employment.

**Mr. Jamieson:** Would you have any idea at the moment what the total dislocation figure is likely to be, sir?

**Mr. MacMillan:** No, I am sorry, sir, because we do not know. There may be more take alternate employment or less. There may be more than we anticipate who will be retrained or less.

**Mr. Jamieson:** We have just seen a forecast of what you expect will happen on the west coast which, Mr. Deachman has said, is very encouraging. Are there any similar forecasts with regard to the growth rate of the amount of goods flowing through North Sydney-Port aux Basques over the foreseeable future?

**Mr. MacMillan:** We know they will increase because they have increased each year. Year over year they have increased. How much, I am frankly not familiar with.

**Mr. Jamieson:** Will the amount of that increase have very much bearing on the number of personnel? In other words, will

the new techniques enable you to sort of absorb this increased traffic without, in fact, having to re-hire or to replace those who are displaced?

**Mr. MacMillan:** This helps to some extent but not necessarily to the extent of the entire personnel involved.

**Mr. Jamieson:** In other words, the new techniques will enable you to take into account or to handle a fairly substantial increase without having to increase the labour force?

**Mr. MacMillan:** I think that is correct.

**Mr. Jamieson:** Thank you.

**Mr. Schreyer:** Mr. MacMillan, I understand that since the advent of the Canada Pension Plan there has been considerable contention and dispute between Canadian National and certain of the employees' groups. At the present time has that more or less been resolved or is there still some contention?

**Mr. MacMillan:** I am going to ask Mr. Toole to expand on what I am going to say. When we had to contend with the problem in the beginning we made a proposal to our organization regarding co-ordination and they rejected it. Then after a period, during which time there was further study given to it by the men, my recollection is they changed their mind and they adopted the plan for co-ordination. I will ask Mr. Toole to correct me or to give you any further answer on this.

**Mr. Toole:** What Mr. MacMillan says is perfectly right. At the time being there is nothing outstanding with the men.

• (3.40 p.m.)

**Mr. Schreyer:** That was really the main point of my question; it had to do with the current situation. I notice on page 15 that in showing the distribution of the pension benefits paid out by Canadian National both through its own plan and the Canada Pension Plan there is a discrepancy of approximately \$10.1 million in that the chart shows a total outlay of 55.4 million and the explanatory paragraph immediately under the chart refers to a total of \$45.3 million.

**Mr. MacMillan:** I think you are right but you picked the wrong column. I think there is a typographical error there. I think the comparable figures are \$45.2 million, which appear in the third line of the statement at the top, but the text uses the figure \$45.3 million. I do not know how this arose. I asked about

that last night and I have not had a very good answer yet. My guess is it is typographical.

**Mr. Schreyer:** There are others that go through that same fund, just minor things such as United Kingdom employees—

**Mr. MacMillan:** That makes the \$100,000.

**Mr. Schreyer:** Mr. Chairman, my next question has to do with Systems Activities and I do not know if you want to refer to that now?

**The Chairman:** Are there any other questions on Personnel and Labour Relations. Then we will move along to Systems Activities.

**Mr. Schreyer:** Mr. Chairman, with reference to page 17 and the explanation given there on development of telecommunications within Canadian National has Canadian National any interest other than academic in the current development whereby the Department of Transport is conducting studies in domestic space and satellite communications systems.

**Mr. MacMillan:** Yes, we have an interest here primarily because all the indications point to this being the manner in which communications will be carried on as we go forward. In years to come inevitably this will be the situation. Although there is no comparability, I think satellites today are at about the same stage as the art of microwave was perhaps ten or twelve years ago. It seems to be the mode of the future and we have a very definite interest in moving ahead in this field as time goes on.

**Mr. Schreyer:** Has Canadian National any concern about the mode or way in which any such system shall be owned.

**The Chairman:** Mr. Schreyer, CNTT telecommunications and Bell Telephone Company of Canada and Trans-Canada telephone System presented a brief on a proposed satellite communications system. Has that been distributed to you?

**Mr. Schreyer:** I have received considerable material lately.

**The Chairman:** Does any of it relate to that particular presentation? That brief sets out the ownership problem. Perhaps it was not distributed to this Committee. This publication is entitled, Canadian Communications



Satellite System by Trans-Canada Telephone System and CN-CP Telecommunications. I was just wondering if it was possible to have this distributed to all members of the Committee. It does not deal with your particular question in this report, but a whole new subject which, I hope, will be referred to this Committee. We are working on it. We could have a presentation from CN at that time. With due respect Mr. Schreyer, I think it would be a futile effort at this time.

**Mr. Schreyer:** I was just putting it in a preliminary way and if you give us the assurance that Mr. MacMillan—

**The Chairman:** I will give you the assurance that the presentation will be distributed to all members of the Committee.

**Mr. MacMillan:** I can tell you that this is so current that I have not read it yet. It was released a few days ago.

**Mr. Schreyer:** Mr. Chairman, I will desist from any further questions on that point. I have a question in three parts relating to Canadian National Steamships. Shall I proceed now?

**The Chairman:** Yes.

**Mr. Schreyer:** Mr. Chairman, I am putting these questions on behalf of a colleague of mine who is at another committee. Has Canadian National Steamships any plan for a new cruiseship off the Pacific coast from Vancouver to Alaska?

**Mr. MacMillan:** Not at the moment.

**Mr. Schreyer:** At the present time there is just the one?

**Mr. MacMillan:** Just the one, the *Prince George*.

**Mr. Schreyer:** Are you able to tell us, sir, whether this particular enterprise is profitable?

**Mr. MacMillan:** Yes, it is.

**Mr. Schreyer:** Although you have answered my next question in part, has Canadian National considered acquiring another ship for purposes of winter cruises into the Hawaiian area and so on?

**Mr. MacMillan:** No, but what may have provoked this question is that from time to time we have contemplated putting the *Prince George* in a winter cruise service, not

to the Orient but down into the Gulf of Mexico and more southern waters. She has been to Seattle a couple of times. At the time of the Seattle World's Fair, for example, she made several trips there. As I said, we have contemplated going further with her but have not done so.

**Mr. Schreyer:** You would say then that your economic analysis of the matter showed this to be obviously not feasible?

**Mr. MacMillan:** At the moment that has been our conclusion, yes. She would have to be air conditioned, for example, and there would have to be changes made which we thought were of an order of magnitude to render such a service uneconomical.

**Mr. Schreyer:** Thank you.

**Mr. Bell (Saint John Albert):** Mr. MacMillan, are you familiar with the plans that CN and CP Telecommunications have to merge, amalgamate or close out the different sales offices across the country. To be fair about it, my reason for asking is the situation in Saint John, New Brunswick. We have CN and CP offices there and the rumours have been that the two service office personnel are to be amalgamated under a single office in the future and I want to know more about this. The Minister denied in the House that there was anything taking place currently. The main reason I am asking about this is that I am concerned about the future of the personnel there, and I think it is an important point. I am all in favour of economy if it makes sense but I want to know whether the CN employees who are affected by these mergers and amalgamations in Saint John or anywhere else will be taken care of.

**Mr. MacMillan:** Dealing with the first part of your question, the practice of closing out one telegraph office and leaving the other one in operation has been going on very gradually throughout Canada for some years and this became necessary because of the shrinking in message traffic. Teletype and particularly Telex, which is a lease service we provide, have eaten so badly into the ordinary commercial and social message that there really is not too much business of this nature remaining. As a means of carrying on we have had this program. It is a long range, very gradual program. I could not tell you when we did the last one or for that matter where it was. I think it was at the Lakehead. As for our employees who would be selected by such an operation are concerned,



again we would not throw them out on the street at all; they would be given an opportunity for replacement within the family and, if possible, in the same location in which the telegraph office was. It might be necessary for them to move from the telecommunications branch into a sales office or the operating department, but that would be the extent of the dislocation.

**Mr. Bell (Saint John-Albert):** They might have to move out of the area too?

**Mr. MacMillan:** That is a possibility or they might choose to do so.

**Mr. Chatwood:** I have several questions but the first has to do with the point Mr. Bell brought up. Is it right that the telegraph is becoming obsolete.

**Mr. MacMillan:** That is correct.

**Mr. Chatwood:** Then is it correct that presumably within five or 10 years it would be almost unknown?

**Mr. MacMillan:** I would not like to put the date of death too definitely but the trends are moving away from acceptance.

**Mr. Chatwood:** On page 17 you refer to the extra communities that have been put on the telephone systems. In the last paragraph the province of Newfoundland is mentioned and you refer to the 300-voice channel microwave system. Mention was made of hooking up a community to the telephone network. However, in many cases there is just one telephone put in the community. Would you have any basis for deciding whether you are going to put in a full telephone service to a community or just one public pay phone.

**Mr. MacMillan:** I think the normal business rules apply to this. I thought you were going to ask me about some of the instruments through which incoming calls are available but no outgoing calls, and in some places I think we have the reverse of that. However, these situations where there is limited service are being minimized, and they are being built up into full competency.

**Mr. Chatwood:** I will not go into that too deeply but it does occur in several small places.

I have a question under Marine Services on page 21, in respect of the coastal boats that serve the Newfoundland and Labrador coasts.

Although I realize that these are joint freight and passenger boats, there are more passenger offerings than the boats can take. In December past, even though the schedule was not set up for the summer, they could not take bookings because they had more people looking for bookings than anticipated. Do you plan to increase the capacity for first-class passenger or tourist service in this general area.

**Mr. MacMillan:** It is under study all the time and it is influenced very largely, in so far as the Newfoundland ports are concerned, by the possibility of them being connected by highways, thereby giving opportunities to service the public by this means. My own view is that this will inevitably come about. Coastal boats are very much freight-oriented because it is their life line. We do provide passenger accommodation but it is not a type of passenger accommodation that we would like to have. We have to compromise really.

**Mr. Chatwood:** I did not think that you had any plans but I thought I would ask. You do not have a plan for a purely passenger—tourist type boat.

**Mr. MacMillan:** No, not at the moment.

**Mr. Chatwood:** And, presumably, it would not be feasible.

**Mr. MacMillan:** That is correct.

**Mr. Chatwood:** Mr. Chairman, they were the only questions I had.

**Mr. Jamieson:** So relating back to what I said this morning, the coastal boat operation in Newfoundland is also subsidized or paid for in part; your losses are covered by the Maritime Commission payments?

**Mr. MacMillan:** The same thing. They pick up all the revenue and pay all the expenses. In other words, they pay to us the deficiency between the two. That is correct.

**Mr. Jamieson:** Am I right in interpreting what you have said here and CN officials have said on other occasions, that you would just as soon be out of the coastal boat business, if you could, through this road expansion and what-have-you?

**Mr. MacMillan:** I think that is correct; yes. We think the service would be better.

**Mr. Jamieson:** Apart altogether from the ferry service across the gulf, do you know the amount of money involved in terms of the coastal boat services?

**Mr. MacMillan:** No, I am sorry I do not.

**Mr. Korchinski:** I have a question on telecommunications, although it may be academic at the moment. To what extent is the CNR involved with television? You say in your report:

Television networks in Southern Ontario, Newfoundland and Quebec, were modified to meet the requirements of colour transmission.

If your main concern is the transmission of messages, how do you get involved in colour?

**Mr. MacMillan:** We do not transmit television, nor is it ours. We lease the facilities to the CBC and CTV, upon which is carried their telecasts.

**The Chairman:** Mr. Korchinski, it is like the Bell Telephone Company; they lease their lines to cable television.

**Mr. MacMillan:** We provide the facilities under lease to them and we give them certain capacities for which they pay whether they are in use or not. The quality of the facilities has to be improved as we go up in the type of thing that is to be transmitted. The telegraph signal is at the bottom; then as we climb to vocalized communication it becomes necessary to have improved facilities; then from that into radio and, eventually, into television and, on top of television, coloured television.

**Mr. Ailmand:** Mr. MacMillan, my question comes under Real Estate or Industrial Development. Have there been any more meetings with the city of Montreal with respect to the development of the subway system under the mountain from Central Station. Has that gone forward at all during the past year?

**Mr. MacMillan:** No, it has not.

**Mr. Allmand:** There are no plans at all now to put a subway system through there?

**Mr. MacMillan:** I would think there has been so much activity in Montreal with Expo and everything else that this is a question which has not been under active discussion.

**Mr. Allmand:** At the bottom of page 20 of your report you mention that Terminal Tower Corporation has built a building right next to the Queen Elizabeth Hotel. Are there so many floors in that building for CNR offices.

**Mr. MacMillan:** Yes, that is correct; I think we have five floors. This building was built between the Aviation building and the east wall of the Queen Elizabeth Hotel. It was built under an emphyteutic lease which runs for 99 years and my recollections are that we have five floors for offices in the upper part of the building.

**Mr. Allmand:** I read a story in the Montreal papers that there are some plans for the development of the CNR property south of St. Antoine street. Are there any active plans for that?

**Mr. MacMillan:** Yes, discussions are going on; as yet they have not crystallized and there is really not very much I can say about that. Our ambition is to develop all of our land which straddles what we call the high line—the trackage going into the station.

**Mr. Allmand:** Thank you.

**Mr. Pascoe:** Mr. Chairman, on page 18 the report shows a very fine net income of \$386,483 on the CN-operated hotels. Does each CNR hotel now make a profit? I recall some of them did not at one time.

**Mr. MacMillan:** Mr. Pascoe, I am not sure they all do at the moment. The one problem we have is that the accounting for our hotels is done pursuant to the Board of Transport Commissioners' classifications. I am sure you will recall we have had under way a modernization program on the hotels, the consequences of which are that some of these expenditures which are directed entirely to refurbishing the hotel show up in the accounts as operating expenses rather than as capital expenditures and, therefore, the results are distorted. There are a couple in the red, if you wish.

**Mr. Pascoe:** It is a fair question to ask how the Bessborough hotel is coming along?

**Mr. MacMillan:** The Bessborough is one of the ones that I mentioned. In 1966 the net loss in the Bessborough was \$165,766.

**Mr. Pascoe:** Was that mostly due to refurbishing?

**Mr. MacMillan:** Yes, a very great deal of it was.

**Mr. Pascoe:** Mr. Chairman, I would just like to ask one more question. Is the Mid-Town Plaza in Saskatoon a complete CNR project, and how is it coming along?



**Mr. MacMillan:** It is a complete CNR project in that it is on our land. Again, you will remember that this was our city yard. We did a deal, withdrew from the heart of the city and eventually accepted a proposal advanced for the development of the first stage and it was begun. Then the developer ran into the money market problem.

**Mr. Pascoe:** Tight money.

**Mr. MacMillan:** That is correct. The project slowed up, but I am glad to be able to tell you those problems have been resolved and, as nearly as I know, it is going ahead full blast.

**Mr. Orlikow:** Mr. MacMillan, I am sure every other member of the Committee feels the same way as I do, that the improvements in the CNR hotels are impressive. Mr. Schreyer and I spent a good part of last weekend in the Fort Garry in Winnipeg attending a convention and it is really so much better that it is unrecognizable.

Once the agreement that you have with the Hilton for the operation of the hotels is signed, does that mean you have nothing to do with the details of the operations?

**Mr. MacMillan:** We do not manage it but we are in a position of having very great influence with respect to standards and things of this nature. If we do not like them then we have much to say.

**Mr. Orlikow:** What about employee relations?

**Mr. MacMillan:** No; they are not our employees.

**Mr. Orlikow:** I realize that and if you tell me you cannot do anything about it I will leave it at that.

I understand that at the Queen Elizabeth Hotel and at the Hotel Vancouver, although that has been changed because the CBRT which represents the employees of the Hotel Vancouver objected very strenuously, the employees have to sign a form which gives the management the right not only to search their lockers in the hotel premises, which I think is fairly standard, but the right to go into and search their houses. I think that is a pretty drastic infringement on the individual rights of people.

**Mr. MacMillan:** I am sorry I do not know about that, but I would be very surprised if that was the case. I will add that the employees at the Queen Elizabeth are represented by one of the largest hotel unions in

North America and I think they have good representation.

**Mr. Orlikow:** Mr. MacMillan, could you make a note to look into this so that next year when you come here you will be able to tell us the practice has been changed, if you find it does exist.

**Mr. MacMillan:** I would be delighted to.

**Mr. Deachman:** Mr. MacMillan, I want to ask some questions about the bridge and tunnel which the Canadian National is building to connect with the north shore of Vancouver harbour.

I might say in preface, as I think you know, that the announcement that this bridge would go across there astonished and dismayed many people in Vancouver who had thought, with the building the Second Narrows bridge and the development of the area, that we would not really have to look at another bridge across the Second Narrows and three bridges across the harbour.

When pictures of the bridge became available, and we saw that what we were looking at was on old fashioned lift span, the dismay increased even that much more, and questions arose in Vancouver just why it was that this curious looking old lift bridge was to be built to replace what was already an antique. It was noted that the new bridge looked very much like the old antique. We wondered and were very dismayed at what would happen when we had failures in this lift span and the traffic above that into Port Moody, which is becoming a big bulk loading area, would be held up. You can appreciate why I am asking these questions today. I hope that you will give us the fullest explanation that you possibly can because people are demanding to know just how this came about.

**Mr. MacMillan:** I would begin my answer by referring you back to the traffic which we anticipate will move to the north shore. I am sure you are personally very familiar with the circuitous route we must now follow to reach the north shore in that we have to move on the Great Northern to the south shore and, at this point, turn on to the CNR, and we create a very serious traffic problem which has to be resolved.

The question was: How can we get to the north shore? The solution which appealed to us all most was a tunnel under Burrard Inlet. When this was investigated we found that the depth of the tunnel would have to be such that we would have had to start back to the south a very great distance in order to get



down to the elevation of the tunnel, and although that could have been done it was not, from an engineering point of view, feasible to get out of the tunnel again on the north shore because we had to come up. Again, the cost of providing such a facility were determined to be very great. So then we had the problem of crossing above the water and this put us right into the jurisdiction of the Navigable Waters Protection Act, the National Harbours Board and the Board of Transport Commissioners, and there were a series of plans formulated and presented to these three bodies. The result of the presentation was that the designs were changed. The lift span, for example, was very materially widened and substantially raised, and it was on those terms that we were granted approval to proceed.

The whole question of the accessibility of the north shore was studied and it was discussed with these three bodies. The result of the presentative groups in Vancouver.

When the design was first published—it is true that it obviously is a railway bridge—there were reactions in Vancouver. I think two organizations communicated with us about it. At that time we sent to Vancouver the design people to go into the question of the design with these groups, the result of which was they wrote me very nice letters thanking us for our co-operation but expressing the disappointment that it had not been possible to make the bridge a little more pleasing to the eye. The real problem is that if we are going to move tonnages of the magnitude which we know will be required the bridge will have to be very strongly built. I think the lift span is the worst part of it. The size of the lift span and the supporting members really flows from the orders which were made against us to have the lift span as wide as it is and to raise it to the height it must go. I think it is the largest lift span in the world. The width of it is substantially greater than that which is normally provided in a channel of this size. We cannot anticipate a similar experience to that which was encountered with the old Second Narrows its lifetime by ships and put out of service.

• (4.10 p.m.)

**Mr. Deachman:** The area above the lift span includes the new bulk loading docks of the CPR as well as the terminals of the pipe lines coming to the coast?

**Mr. MacMillan:** That is right.

**Mr. Deachman:** If the largest lift span in the world should happen to jam, and this has been the history of lift spans everywhere, then these great bulk loading facilities above the span will be locked in by the new lift span. During the hearing held under the Navigable Waters Protection Act were protests made with regard to what you were doing?

**Mr. MacMillan:** What you say is correct if it happens. We can only hope that it will not happen. I think the old bridge, which had a very small lift span, was built—and you know more about this than I do—in the late teens. It was hit once, if I recall correctly, before it was completed and it was hit again four or five years later. During the period it has been under our management it has not been hit at all. This occurred three times in 40 years, but as this span is virtually twice as big as the old one we ought not to have that difficulty.

**Mr. Deachman:** Mr. Chairman, I am not quite finished and I have not used up all my time.

**The Chairman:** Your time is finished, Mr. Deachman, but I will allow you to ask this last question.

**Mr. Deachman:** I hoped I would have an answer to my question with respect to whether or not protests were raised at the time of the application under the Navigable Waters Protection Act by the bulk loading operators who will be working above that span.

**Mr. MacMillan:** I am sorry, I did not avoid the question; I did not hear it.

I do not remember, if these protests came in solemn form or not but I do remember there were protests from officers of the bulk loading concern to which you referred.

**Mr. Deachman:** So there were protests against the building of this bridge in the path of some of the biggest bulk loading facilities in Canada?

**The Chairman:** That question has been answered, Mr. Deachman.

**Mr. Deachman:** Sir, was the possibility of a causeway crossing at Indian Arm explored?

**Mr. MacMillan:** Yes, it was.

**Mr. Deachman:** Why was that project rejected?

**Mr. MacMillan:** We did not do this, it was done by another agency. A massive tunnel was involved because if you recall the terrain, immediately to the east of Indian Arm

the mountain comes right down to the sea and that all had to be tunnelled. This was a very long tunnel and Indian Arm is very wide, very deep and very tidal. A tidal problem was created which was very much more severe than the problem at the Second Narrows.

**Mr. Deachman:** I am not sure if that is a very satisfactory explanation of the engineering difficulties across Indian Arm but I will pass at this point.

**Mr. O'Keefe:** Mr. Chairman, with your well-known patient indulgence I intend to ask only one question of Mr. MacMillan.

**The Chairman:** As long as you do not preface it with a great thesis Mr. O'Keefe.

**Mr. O'Keefe:** My question, Mr. MacMillan is in connection with the Newfoundland Hotel in St. John's which I believe has now been christened Hotel Newfoundland. Has any recent consideration been given to enlarging this hotel, which I believe is one of the few in the CNR chain which operates in the black?

**Mr. MacMillan:** In the first place, it is not one of the few, Mr. O'Keefe. I must correct you on that assumption. In the second place, from time to time we have given serious consideration to enlarging this hotel but, as you well know, there have been several new hotels built and we are not really sure that it is appropriate for us to enlarge the hotel at this time.

**Mr. O'Keefe:** Are you not always operating at capacity?

**Mr. MacMillan:** I think we are.

**Mr. O'Keefe:** Would that not be reason enough?

**Mr. MacMillan:** No, it would not. In the life of a hotel there comes a time when it is a mistake to enlarge it. A hotel is a balanced operation; the rooms have to balance with the dining and other public facilities. There have been many hotels which have been very profitable operations, but they went into the red because of enlargement. It is a good operation. We are very satisfied with it and very proud of it.

**Mr. O'Keefe:** May I take it there is no hope of its ever being enlarged?

**Mr. MacMillan:** I would not be so categorical. All I can say to you at the moment is that we do not have a plan to enlarge it.

**Mr. Schreyer:** Mr. MacMillan, if you have not done so during the past few years, could

you now elaborate somewhat on the nature of the arrangement that Canadian National has with the Hilton interests, and in particular the leasing or rental arrangements. Are they based on a percentage of gross intake or on square foot, and so on? If you have elaborated on this in the past few years I suppose we could find it in the Minutes.

**Mr. Vaughan:** I believe we gave the details a couple of years ago and at various times during our appearances before this Committee we have given considerable detail on the arrangements with Hilton respecting the type of arrangement, the standards, the split, and so on.

**Mr. Schreyer:** I have only one follow-up question. Having given this elaboration, has there been any significant change or alteration in this arrangement in the past year or two?

**Mr. MacMillan:** I do not know of any change at all.

**Mr. Schreyer:** I have another question, Mr. Chairman. Mr. MacMillan, is Canadian National presently involved in any litigation with regard to the construction of the Great Slave Lake Railway? Is it *sub judice* at the present time?

**The Chairman:** How does that apply here?

**Mr. Schreyer:** Well, Mr. Chairman, simply because I do not see any other item under which I might ask it.

**The Chairman:** Neither do I, Mr. Schreyer.

**Mr. Schreyer:** I think it is significant. There are seven contractors involved, there are allegations of multimillion dollar losses and two or three contractors have gone into bankruptcy. I would like to know if the matter is *sub judice*. If it is not I would like to ask one or two questions.

**Mr. MacMillan:** I am not completely familiar with the status of these claims but if they have not found their way into the courts by now I am sure they will.

**The Chairman:** I think that is sufficient on that question, Mr. Schreyer.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, I would like to explore these hotel operations a little further. Could you tell us a little more, Mr. MacMillan, about your plans for the future? What about the addition to the Chateau Laurier, for example? Also, what about new hotels for Toronto and Moncton? We do not have a CN hotel in New Brunswick. We like the CN and we wonder what



happened there? What are your thoughts about this hotel business. The CPR seems to be moving in a big way into hotel operation and hotel management. As a company, what are your thoughts on this? It is encouraging to note the profit which you have shown. Are there greater profits to be made if you invest more? What is the story?

**Mr. MacMillan:** I think the best answer is that three or four years ago we very carefully re-examined our hotel position and at that time decided upon a program of rehabilitating our hotels and promoting the hotel business as hard as we knew how. We have done that. I think the results are reflected in the figures which are before you this afternoon. That is our philosophy.

We are also interested in management arrangements in connection with hotels which are owned by other people. At present discussions are being conducted with that end in view. I could not expand beyond that.

As far as Moncton is concerned, I think in my time we have had two different proposals to build a hotel there but for one reason or another these proposals have not been advanced. You know, of course, that in the early days we participated in the financing of the Admiral Beatty Hotel and it was because of our participation that it came into being. I think we still have a small residual interest in the Admiral Beatty.

**Mr. Bell (Saint John-Albert):** You do not have any large scale future plans in the hotel business?

**Mr. MacMillan:** Not at this moment.

**Mr. Bell (Saint John-Albert):** May I ask another question with respect to real estate and industrial development. Are there separate figures on your balance sheet, which we can look at later if you prefer, regarding the success of your investments in this respect? Do you have any information that will indicate how well you are doing in this field? I know in many cases, there are lease arrangements but how profitable have these been, particularly where property is involved in which I suppose the taxpayers have a certain interest, indirect as it may be at the moment?

**Mr. MacMillan:** I do not know if we have ever prepared a statement of that nature. As a matter of fact, I am quite sure we have not. I can say that Place Ville Marie is a shining example of this. From our point of view this was a very good transaction and the result has been to actually create a magnet which attracted these other buildings. The one to

which reference was made a minute ago, the Terminal Tower building, came into being because of the concentration of population created by Place Ville Marie—Place Bonaventure behind the station is also part of it. These are all in the same category; they are all on land owned by the railway under an emphyteutic lease from which we get a basic rent and the developer pays a large proportion of the taxation on the land and all the taxation on the building itself. There is percentage participation by ourselves in the net profits of the building. The application of those profits is postponed to the future because of the mortgage debt but this debt will eventually be paid off and at that time the fruits of our labours will be very real. At the end of the 99 years it all lapses and comes back to us. That is basically, the pattern. It is the pattern of the developments at Moncton, Campbellton, Saskatoon, Edmonton and several others around the country, and they have worked out very well. In some cases the fruit is not evident today and it will not be for perhaps 20 or 25 years but in the fullness of time for a company that has perpetual existence, as we do, these will be very attractive investments.

**Mr. Bell (Saint John-Albert):** I am trying to ascertain where this would appear in the balance sheet. It might be better to leave that until later. May question is this. If you have valuable land in the centre of the city, for example, the pattern is that you inform developers that you are interested in the development of this land for a variety of reasons on behalf of the company and of the community. An arrangement is then worked out for the land. Would there be a sale of the land to a person or a long-term lease under certain conditions?

**Mr. MacMillan:** It is generally a 99-year lease.

**Mr. Bell (Saint John-Albert):** And if you need facilities you rent from the developer?

**Mr. MacMillan:** We have done that several times. In other instances we have put our own facilities into the area covered by the plan.

**Mr. Bell (Saint John-Albert):** As far as the balance sheet is concerned this would be shown under real estate holdings, or something of that nature?

**Mr. MacMillan:** That is correct. I think it would be reflected in the capital account more than anywhere else.



**The Chairman:** The urban development project which you have shown is in conjunction with CP, is it not?

**Mr. MacMillan:** That is in Toronto. Yes, that is correct.

**The Chairman:** What development is envisioned for that particular project?

**Mr. MacMillan:** There is a very substantial plot of land in this area and the title to that plot of land is held by a number of different corporations or entities. At the moment we are trying to consolidate the titles. The Toronto Harbours Board, the Post Office Department, the City of Toronto, CN and CP all have some interest in it. At the moment the whole area is being studied by a consultant and he is formulating a plan for future development of the area. What will come from it will depend upon our opportunities.

**The Chairman:** Do you have any idea now what type of development will take place in these office buildings?

**Mr. MacMillan:** Oh, yes. The area is so vast that it will more than adequately take, for example, a transportation centre railway station, bus station, airline terminal, a trade mart similar to Place Bonaventure, office buildings, apartment houses and actually any type of urban development which fits into the plan.

**Mr. Jamieson:** This is a question I was going to ask this morning but it was referred to the hotel section. Mr. MacMillan, I presume Hilton is the only organization with whom you have a management arrangement of this sort in your hotels, is that correct?

**Mr. MacMillan:** That is correct.

**Mr. Jamieson:** Does this indicate—or am I reading too much into it—that you would like to reach that stage with all of your hotel operations? In other words, you would prefer to withdraw from the direct management and ownership of these hotels?

**Mr. MacMillan:** No, I do not think so.

**Mr. Jamieson:** It is not that there was no one acceptable in any other cases?

**Mr. MacMillan:** No, no.

**Mr. Jamieson:** You want to retain them?

**Mr. MacMillan:** That is correct.

**The Chairman:** Well, gentlemen, we have finished with this report. Mr. Cantelon.

**Mr. Cantelon:** There have been some comments in the newspapers recently to the effect that you were considering operating

only one transcontinental passenger train and what I might call area trains between the larger centres. Have you given that serious consideration? I would like to know your thoughts in this respect.

**Mr. MacMillan:** I think the reference you have in mind relates to a speech one of our officers made in Toronto about six weeks ago. I have been asked this question several times. I do not want to put words into his mouth but I believe he was delving into the future. He said that the long distance pattern of travel would inevitably change. I also think it will because in the newspapers, and so on, reference is made to jumbo jets, for example, which will probably accommodate 400 or 500 people. It will be an advanced type of aircraft and therefore the long distance rail passenger demand will inevitably slip, it will be reduced.

• (4.30 p.m.)

People travelling from Halifax to Vancouver, for example, would require a particular reason to take the train in preference to the other method of travel, which I suggest will probably be this big jet. Of course, when that time comes we hope we will be operating the best passenger service in the world but it will only be to the extent of the requirements of the public. It could be that the service will be reduced to one through train a day. The problem of the through train in Canada which is shared by every railway is that it is possible to provide for a convenient departure westbound from Montreal, for instance, but it does not automatically provide for a convenient arrival time in Winnipeg, Saskatoon, Edmonton or Vancouver. These trains, although they will provide through transportation and meet the requirements in this respect, will not do a very good job between cities such as Saskatoon and Edmonton. What we expect will evolve in those circumstances, assuming our population continues to increase—and I think it will—is that we will have a service which will run from Saskatoon to Edmonton at convenient departure and arrival times.

Our problem has always been in trying to get the train to its destination at a reasonable time because railway passengers are unusual in that they do not like arriving at their destination at three o'clock in the morning. However people travelling by aeroplane will do this. They will get off an aeroplane at three o'clock in the morning and grumble a bit but they will do it again. They will not do this on a train.

**Mr. Cantelon:** I would like to dispute that. There are some of us who will not travel on a jumbo jet, or any other kind of aeroplane, at night because we do not like it any more than your suggestion that we might like travelling on a train. I think there will always be some business for a transcontinental train because there are people who like to see the country and like the comfort of the train.

This leads me to my next question. Speaking of research and development, I know that you now have this new turbo train. If further research and development is carried forward would it be possible to perhaps evolve a type of train that would work satisfactorily on a transcontinental run? I am not too sure that the turbo train could accomplish this.

**Mr. MacMillan:** We have had some drawings made, or they are in the course of preparation, of the interior of the cars which will be used on the turbo train for transcontinental service. We want to know what opportunities there are in this field and on the assumption that the turbo train will prove to be adaptable to long distance travel, then we will have made a beginning.

I share your view that it will be a long, long time before the role of the transcontinental passenger train will disappear. I think it will be with us for a long time to come.

**Mr. Cantelon:** In discussing the matter of transportation with the Minister, one of the suggestions in the new act was that some research should be done. I gathered that he thinks quite a lot could be done and we made the suggestion at that time that something could be done in respect to a chair of transportation in a university. Do you think such a thing would be of any practical use? I am speaking of transportation research.

**Mr. MacMillan:** Well, our philosophy is that we are great believers in research affecting transportation and we think anything of that nature is desirable.

**The Chairman:** Gentlemen, I hope these are all clean-up questions because we have covered everything pretty well.

**Mr. Allmand:** In the table on page 26, Mr. MacMillan, refers to the companies which are included in the Canadian National system. Are all those companies subsidiaries of the Canadian National Railways?

**Mr. MacMillan:** In the final analysis they are, yes. There may be intervening companies which in turn are on this list.

**Mr. Allmand:** I notice there appear to be eight trucking companies, some of which I did not realize were under the CNR. Are these trucking companies merely involved in local trucking transport or are they involved in interprovincial trucking transport?

**Mr. MacMillan:** There are some of both. It is basically interprovincial.

**Mr. Allmand:** Basically interprovincial?

**Mr. MacMillan:** Yes.

**Mr. Allmand:** Long haul?

**Mr. MacMillan:** In some instances, yes.

**Mr. Allmand:** What is your policy—

**The Chairman:** We went into this quite thoroughly this morning, Mr. Allmand.

**Mr. Allmand:** I will read the record on the topic of trucking.

**Mr. Korchinski:** In an answer given this afternoon in the House—I do not know if the witnesses who are present were able to hear it—the Minister suggested, in connection with the air lines, at least, that a deposit might be made for reservations. What are your views in this regard in connection with reservations on the CN? Do you agree with this suggestion? It may have some merit.

**Mr. MacMillan:** We would be very much in sympathy with that suggestion. The Railway Act formerly—although I am a little bit out of touch with it now—used to provide that people were entitled to get their money back if they returned the ticket. At that time we could have conceivably gone to the extent of forcing them to buy the ticket at the time the reservation was made, but if they did not use it, if they did not show up to claim their reservations, we had to give them all their money back. This is one of our very serious problems these days. We think we have a train fully reserved and sold and then at the last minute we find on occasion that there are substantial numbers of people who do not show up, and there we are. We have turned people away or we have held them on a waiting list and we cannot confirm their reservation until just the moment of departure. On days such as Fridays and particularly on those days when the weather is bad or likely to be bad—which is the case between Montreal and Toronto at this time of the year—a substantial number of people will have reservations on the air line and will have protected themselves by having reservations on the Rapido, which they might have obtained two weeks ago and they may even



have bought the tickets, and then if the weather clears up they fly on the aeroplane and then on Monday present their tickets to us and we have to refund their money. This is a very unsatisfactory situation from our point of view.

**Mr. Korchinski:** Mr. Chairman, I do not know if I am permitted at this juncture to ask several other questions on a matter that I raised earlier this morning.

**The Chairman:** No, Mr. Korchinski. The reason I allowed questioning on this subject before noon was to give you an opportunity to discuss it. We are really not dealing with that matter in this particular report. I gave you an opportunity to discuss it but if you did not have discussions with the CNR people...

**Mr. Korchinski:** Well, I do not see the difference, Mr. Chairman, if I may disagree. There is a 12 mile line in the Snow Lake area of Northern Manitoba and it is 17 miles from Watrous to Guernsey, but the line I am interested in involves about 70 miles. Surely to goodness I am permitted to ask a few questions pertaining to this matter. I intend to cut the questions down as much as possible, without being specific, but I would like to have answers to a few further questions. Where else may I be permitted to ask these questions?

**The Chairman:** Mr. Korchinski, this morning—Would you allow me to finish, please—Mr. MacMillan said they were not familiar with your problem at the moment but they would get the information. That is why I asked you to discuss it with them at the recess. Did you discuss it at all?

**Mr. Korchinski:** Yes, I approached them and if you will look at the record you will see that I was the one who suggested it and I would have been very glad to have discussed it with them.

**The Chairman:** No, the Chairman is the person who suggested you discuss it with them.

**Mr. Korchinski:** Now, having approached them on this subject I think possibly one or two further questions might be in order.

**The Chairman:** Ask your question and I will determine at this time if it is in order or not.

**Mr. Korchinski:** This is a trestle of some size and I do not know the policy with respect to trestles or bridges of this size. Does

the CNR ever use watchmen on any bridges anywhere?

**Mr. MacMillan:** Yes, we do.

**Mr. Korchinski:** What determines the policy on whether you will or will not have a watchman on a bridge? Is it the size, the expense involved, or what is it?

**Mr. MacMillan:** I would say it is a combination of density of traffic, the size and the essential characteristic of a given trestle. We had a trestle in the Rocky Mountains which we called the Big Eddie. It was curved and many of you must remember it. That trestle was under constant surveillance night and day summer and winter for many, many years because if we had lost it it would have put the entire railway out of commission for a long, long period of time. We got rid of it by making a diversion there, and we took it down.

**Mr. Korchinski:** Is it not the cost of replacing a bridge or a trestle that might govern whether you would use a watchman?

**Mr. MacMillan:** Yes, it would be an element, of course.

**Mr. Korchinski:** As I have already indicated, it is the cost of the bridge that would govern. Do you know what the cost of a bridge would be that you might put a watchman on?

**Mr. MacMillan:** I do not know. Do you know, Mr. Bowra?

**Mr. W. Bowra (System Vice President, Canadian National Railways):** Cost would be one factor but I think it is the other factor that Mr. MacMillan mentioned, that the essential character would govern to a greater extent than the cost of the bridge.

**Mr. Korchinski:** Have you gentlemen been able to check into the problem that I raised, I mentioned this before, Mr. Chairman, but I was not in touch with these gentlemen prior to the meeting so I do not know if they have been able to check with their officials to find out if they have made a decision or not.

It is now over a month since the fire and there has been no decision. What are the people to expect? Is this an attempt on the part—I will put it bluntly and plainly—of the railways to circumvent the guarantee by providing an alternative service which may be almost identical—although not necessarily equal—to the service that was provided prior to the time the freeze was guaranteed? I do not know how I can describe it in any other way. I can use no plainer language. I am not



attempting to browbeat anyone, I am simply attempting to find out what is happening in this respect. Incidentally, Mr. MacMillan, Mr. Toulmin replied on your behalf and said that a review of the situation was being conducted. The tone of his telegram indicated that adequate service was provided. I am sure all the residents of that area do not agree with this.

**The Chairman:** Mr. Korchinski, in fairness to yourself, the witnesses and Mr. MacMillan I think it would be best if you went through your file with the officers of the CNR who are here in order that they could be made aware of the person who was doing it on their behalf.

**Mr. Korchinski:** I have done that.

**The Chairman:** Well, Mr. MacMillan advised me he has not seen the correspondence.

**Mr. Korchinski:** They were at the table this morning. If someone else wishes to answer, I think it would be in order.

**The Chairman:** I am not trying to pass it off. I appreciate your problem but I do not think this is the place to deal with it.

**Mr. Korchinski:** The officials are here and I think that I...

**The Chairman:** Mr. Korchinski, I think your questions would be answered more fully and thoroughly if you dealt with them directly and also gave them the opportunity to deal with you directly. However, my point is that it should not be done when we are reviewing a report.

**Mr. Bowra:** I said that I would get some information for you. I was in touch with Montreal at noon and although I do not have that information now I will see that you get it.

**Mr. Korchinski:** Well, all right.

**The Chairman:** I think you would get further ahead if you dealt directly with them, Mr. Korchinski, rather than across the table during the study of a report.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, I am getting curious about this case.

**The Chairman:** It would not surprise me, Mr. Bell, if you did.

**Mr. Bell (Saint John-Albert):** With all due respect, some assurance was given to Mr. Korchinski that after he spoke to the officials he could bring this up when we reconvened at 3.30.

**The Chairman:** I did not give that assurance, Mr. Bell.

**Mr. Bell (Saint John-Albert):** Well, that was my understanding. However, this is the point I wish to make, and if you prefer you can call it a point of order.

In my understanding of this conversation I think this is a perfect place to bring up the first part of this matter. This is a trestle that burned or broke down and there is a certain aspect of service not being fulfilled under it, and it is quite proper to bring it up. This is the purpose of the Committee. Whether this applies as a factor in discontinuance or abandonment of line is possibly a legal matter that will come before the new board and will be completely reviewed. Certainly in my opinion the first part of that matter could well be discussed here.

**The Chairman:** Mr. Bell, I do not think it can be for the simple reason that I believe Mr. Korchinski's problem could be better handled by dealing directly with the people who are involved. This cannot be accomplished by this Committee working across the table. I am not diminishing his problem, I am merely saying I do not think this is the place for such a discussion. The railway people are here and he has been given the undertaking that the information will be obtained and given to him. I do not know how he could get a more complete answer than that.

**Mr. Bell (Saint John-Albert):** That is perfectly all right unless there are some other questions.

**Mr. Korchinski:** Can you distinguish my problem from the one at Lions Gate bridge or the Second Narrows bridge or any of the other problems that have been local?

**The Chairman:** Mr. Korchinski, I think you would be further ahead if you dealt with the railway people. If you want my assistance in this matter I will be happy to give it to you. You have been given an undertaking that the information will be obtained and given to you and I am sure they will give it to you as quickly as you want it.

I am now moving on, Mr. Korchinski. I think it would be better if you dealt with your problem directly. I have tried to be as helpful as I could.

**Mr. Orlikow:** Mr. Chairman, my questions will be mainly confined to the section dealing with personnel. I am sorry I am a little late in bringing this up.

**The Chairman:** Mr. Orlikow, you mentioned that you wanted to question on that.

**Mr. Orlikow:** Mr. MacMillan, your company and the CPR are now in the process of arbitration with the Shopcraft employees, is that correct?

**Mr. MacMillan:** That is correct.

**Mr. Orlikow:** In the opinion of the company—and I am not asking you to try to influence the role of the Board of Arbitration—can questions of technological change and job security be dealt with by the Board of Arbitration?

**Mr. MacMillan:** This is my problem, Mr. Orlikow. The parties to the arbitration have made their submissions to the Board of Arbitration, the hearings have now been concluded and the Board has the entire matter under advisement. For that reason I feel it would be inappropriate for me to comment upon what the Board is likely to determine.

**Mr. Orlikow:** I am not asking you to do that, Mr. MacMillan. I am sorry, perhaps I did not make myself clear. Did the company take a position before the Board with respect to whether the Board could or should deal with the questions of technological change and job security which were raised by the union?

**Mr. MacMillan:** As you probably know, we have always been prepared to deal with that matter. What position was taken before the Board I cannot tell you.

**Mr. Orlikow:** In the course of negotiation, and before the questions which were unresolved went to the Board of Arbitration, did the company at any point indicate to the unions that it felt the agreement which was being negotiated should cover a particular period of time such as one year, two years, and so on?

**Mr. MacMillan:** One of the main issues before the Board of Arbitration was whether the agreement should be a two year agreement or a three year agreement. You know, of course, that all the other people who were involved in the labour crisis of last fall concluded agreements on a three year basis.

**Mr. Orlikow:** I know that, but the question that concerned some of the men and the union was if at any time you indicated before you got to the Board that you wanted a three year agreement, or any other period of time?

**Mr. MacMillan:** Did we ever say this to them?

**Mr. Orlikow:** I will make it very clear, although I think you should know the answer. The unions involved objected very strenuously to the fact that the Board had no right to make a three year agreement simply because the company did not ask for a three year agreement. They said the Board only had the right to deal with the questions which were negotiated.

**The Chairman:** Is that not a legal matter, Mr. Orlikow?

**Mr. Orlikow:** I am just asking for factual information.

**The Chairman:** That subject has been dealt with, has it not?

**Mr. Orlikow:** No, unfortunately it has not.

**The Chairman:** Or it is being dealt with.

**Mr. Orlikow:** I am simply asking if the CNR ever said to the employees' representatives that they wanted a three year agreement or a two year agreement, or anything else. It is just a matter of a factual "yes" or "no".

• (4.50 p.m.)

**Mr. MacMillan:** My real problem is that while I am quite prepared to chat about this with you at any time, I hesitate to express an opinion or a point of view on anything which is before this Board because I think it is inappropriate for me to do so.

**The Chairman:** I agree with that answer, Mr. MacMillan.

**Mr. Orlikow:** I am not asking Mr. MacMillan to express a point of view. I am simply asking—

**The Chairman:** Mr. Orlikow, we have your question, you have the answer, and I do not think we can ask him to go any further than the answer that has been given. The matter is being considered, negotiations are going on, and I think we should drop it there. You and I both know that we just do not discuss negotiations that are under way.

**Mr. Orlikow:** Mr. Chairman, I should like to ask a few factual questions about the pension fund. If the information is available now I should like to get it. If not I could put it in the form of a question on the Order Paper. I am sure Mr. MacMillan knows, as well as some of us, that since the passage of Bill No. C-221 the employees are quite agitated about some aspects of the pension fund. As I say, if you do not have the factual information I will get it later. Does the company contribute the same amount of money



to the pension fund each year as the employee?

**Mr. Toole:** The company actually contributes more money than the employee. If you look at page 37 in the report I think you will see at the righthand part of the report that:

Contributions by employees on account of:

Current service, \$23,256,253.

Prior years' deficiencies

These are employees who are making up back payments, a total of \$26 million coming from the employees into the 1935-59 plan and the company's contributions were \$38,642,110 into the pension fund.

**Mr. Orlikow:** Am I reading correctly, that the earnings on investments—the earnings from the pension fund—were \$28,763,156?

**Mr. Toole:** That is right.

**Mr. Orlikow:** And that pensions paid were \$37,595,615?

**Mr. Toole:** That is right. Those are the pensions paid out of that fund. We do pay other pensions and that gets you up to the \$45.3 million we mentioned earlier. We pay pensions from the ICI and PEI Employees' Providence Fund, and certain other small pensions that bring out total pension payment to \$45.3 million. But out of the pension trust funds it is the \$37.5 million that you see here.

**Mr. Orlikow:** The amount of money that came in last year through contributions from employees, contributions from the company, and the earnings of the pension fund itself, are very substantially greater than the amount of money paid out in pensions last year.

**Mr. Toole:** Than the current outflow; that is correct.

**Mr. Orlikow:** This is something which concerns a number of the employees. They have the feeling that it is time the pension fund was in a position to pay larger pensions than it is paying.

**Mr. MacMillan:** One of the problems flowing from that is that a pension fund of this magnitude must be regarded as being a perpetual fund. That would be a dandy thing for the people who are on pensions, or who are going on pensions, but not very good for the young men who have come in during the last 10 or 15 years. They have to look to their pensions, and our age maximum is changing and has changed very radically from what it

was 15 years ago. Ten or 15 years ago we had a disproportionately large number of people who were, for example, in their mid '50s to mid '60s, because during the grim years of the '30s we did not hire anyone to speak of; the result was that our general age level increased. But those people are not going out on pension and being replaced by people who are very much younger.

**Mr. Orlikow:** I have just a couple more questions, Mr. Chairman. Mr. MacMillan, is the pension fund a subject of negotiation with the employees? I know it was not originated through negotiation, but is it now negotiated?

**Mr. MacMillan:** The pensions are managed by the Pension Board, and on the Pension Board are three representatives of our employees who are General Chairmen of the organizations. They sit with the corresponding number of company officers, they meet a minimum of once a month, and they discuss all these problems; the question of pensionability of people, what rights they have, and the question of benefits. It has been pursuant to these discussions that from time to time changes have been made in the pension rules.

**Mr. Orlikow:** Are there an equal number of company representatives and employee representatives?

**Mr. MacMillan:** I understand that that is correct.

**Mr. Toole:** Yes, exclusive of the chairman. There are four company men; the Chairman is a company man, and there are three each beyond that.

**Mr. Orlikow:** If the unions representing the employees felt—perhaps not justifiably—and expressed the view which I expressed a few moments ago that there was enough money in the fund to increase the benefits, could that be negotiated?

**Mr. MacMillan:** No, it would not be negotiated. What arises—and these questions do arise from time to time—is that the entire case for or against a proposal of that nature is prepared and put to the employee representatives. So far as I know, they have always come out of these discussions on a unanimous basis.

**Mr. Orlikow:** I want to ask one more question, Mr. Chairman. A Committee of the House of Commons has recommended an increase in the pensions paid to past civil servants. Now, the government has not brought in legislation along that line, but the principle is quite well established. If that



happens, could the CNR consider an increase in the pensions paid to past employees? Some of them, particularly the older ones who made small contributions are getting very small pensions.

**Mr. MacMillan:** Well, we could consider it but that is about the only thing I could say at this time.

**Mr. Rock:** Mr. Chairman, may I ask a supplementary?

**The Chairman:** Yes, Mr. Rock.

**Mr. Rock:** I should like to know whether there is any change in the refunds on termination of service. If a person quits does he still get his complete refund, or is that retained until he is 65 years of age?

**Mr. MacMillan:** We leave this to their choice; we have the availability of a deferred pension now. If an employee qualifies he may leave his contributions on deposit and we will give him a pension at age 65, or he can withdraw them if he chooses.

**The Chairman:** Gentlemen, that concludes our consideration of the CNR report. Mr. Schreyer?

**Mr. Schreyer:** I want to hark back for just a moment to the matter which I raised a few minutes ago having to do with the Canadian National Railway and a group of seven construction contractors that built the grade known as the Great Slave Lake Railway. Mr. MacMillan, you said that you were not aware whether or not there was any litigation between the CNR and this group of seven contractors, but I have a letter here from the Minister of Transport in connection with this matter. The Minister states that—

**The Chairman:** Perhaps you can read the whole letter, Mr. Schreyer.

**Mr. Schreyer:** The letter is addressed to me, and states:

This is to acknowledge your letter of December 7,—

Last year—

—concerning difficulties experienced by the above mentioned construction companies during the building of the Great Slave Lake Railway line.

The matters referred to in your letter have been under study for some time. Since the case is under review at this time I do not feel at liberty to discuss it in any detail.

I will, however, undertake to keep you informed of developments in connection with this matter.

Yours sincerely,  
J. W. Pickersgill

I might say that in the ensuing seven months apparently there have been no developments because I have not been informed.

**The Chairman:** Have you written to the Minister for further reports?

**Mr. Schreyer:** Yes, twice as a matter of fact. But it strikes me as being somewhat strange that a matter should be under review by order of the Minister, and that you, sir, would not be aware of this problem.

**The Chairman:** I do not think Mr. MacMillan said he was not aware of it, Mr. Schreyer; he said since it was under consideration he was not prepared to say anything about it at this time, which is in line with what the Minister has said.

**Mr. Schreyer:** Mr. Chairman, I said right at the outset that if it was sub judice I would not pursue it, I understand that it would be improper. But if it is not sub judice, I would like to pursue it somewhat.

**The Chairman:** In the light of the Minister's letter and Mr. MacMillan's reply that if there was not litigation there soon would be and that he would just as soon not touch it, I think he is absolutely right in that.

**Mr. Schreyer:** Yes, but this leads me to this: You would expect that there would be litigation but if these firms have gone into receivership or bankruptcy, how in the world could they initiate a civil suit?

**The Chairman:** There could still be a civil suit even though they are in receivership or bankruptcy, Mr. Schreyer.

**Mr. Schreyer:** Well, I would like to see what lawyer they would get to act for them on that basis.

**The Chairman:** Well, you never know; there is such a thing as legal aid; I do not know if there is in Manitoba. We have now dealt with the Annual Report; shall I report the Annual Report of 1966 and the Annual Report of the Securities Trust?

**Some Hon. Members:** Agreed.

**The Chairman:** Thank you very much Mr. MacMillan, Mr. Vaughan, Mr. Bowra, and Mr. Toole. We are very happy to have been able to deal with the Annual Report of the CNR in what I think is some kind of record since it is

now five minutes past five o'clock. Perhaps it is due to the aggressive and dynamic policies of the CNR.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, we are not trying to break records around here; we do not want all this to be misunderstood. We have been giving the railways a pretty good check for the last few years. Mr. MacMillan has been a very good witness, and I think we worked hard; but it should not be thought that we were out to break a record at all.

**The Chairman:** No, Mr. Bell; if you will remember my preamble, I stated that we did have the CNR twice before—on the CPR hearings of passengers, and on the National Transportation Act—and therefore that qualification has been put in. In fact, I think they have been here and dealt with more thoroughly in the past year than any other corporation.

**Mr. Schreyer:** Mr. Chairman, just to give effect to Mr. Bell's caution about not trying to break records, I have one more question I should like to put to Mr. MacMillan.

**The Chairman:** It would surprise me, Mr. Schreyer, if you did not. We are going to deal with the Auditor's Report; does it deal with that?

**Mr. Schreyer:** No.

**The Chairman:** All right.

**Mr. Schreyer:** The question is simply this: During your years, sir, of connection with the CNR, can you recall any instances where the railway company made an adjustment in a contract that may have been improperly tendered, or inaccurately tendered; in other words, an adjustment from a bid basis to a cost plus basis?

**Mr. MacMillan:** I think it is very dangerous for me to answer such a general question as that. I think it would be much better if we dealt with them on a specific basis. Would it be appropriate for me, Mr. Chairman, to thank you and the members of the Committee for the very courteous hearing you have given us today? Thank you, very much.

**The Chairman:** If Mr. Ross, Mr. Boissonnault, and Mr. Wells, would come forward please, we will deal with the Auditor's Report to the year ended December 31, 1966, from the firm of Touche, Ross, Bailey, and Smart.

To my immediate right is Mr. Howard Ross, the senior partner; Mr. L. E. Boissonnault is to his right; and Mr. D. S. Wells.

Gentlemen, we are open for questions. Are there no questions?

**Mr. Bell (Saint John-Albert):** I asked some questions during the time Air Canada was here, and while I do not wish to get into that we did talk about Air Canada and the method of financing they use and some of us suggested, in the light of present day competition, the big demands for money and the super jets and the SST's, that it might be advisable to look all this over. Now, can I get at it here by asking you what sort of hardship it imposes on the CNR to have Air Canada coming for this money periodically? Would you just take a minute to explain this, and relate what you think of it?

**Mr. Howard Ross (Senior Partner, Touche, Ross, Bailey, and Smart):** I do not see this in terms of any hardship. If there are loans to Air Canada, interest is paid to the railway on those loans; if there are profits in the company, the railway gets the dividends. It is just a financing passing through the CNR, as it were.

**Mr. Bell (Saint John-Albert):** Well, does the CNR have difficulty, though, in getting this money on short notice? Let me put it this way: would it not be a difficulty for the CNR if larger sums were needed by Air Canada for these future greater commitments that we know about?

**Mr. Ross:** I am not aware of any difficulty. The money goes through them; they get it from the Government and pay it to the air line. I do not think there is a question of difficulty there.

**Mr. Bell (Saint John-Albert):** If \$300 million was required, for example, to purchase SST's by Air Canada, would the CNR just be able to provide it with no problem?

**The Chairman:** Mr. Bell, perhaps we can have Mr. MacMillan up here, and he might be able to guide us in that matter.

• (5.10 p.m.)

**Mr. MacMillan:** The best answer is that the capital cost of the SST's and, for that matter, of the Jumbo jets, if and when we get them, will very largely be defrayed by Air Canada's own depreciation moneys and its self-provoked capital. The program facing us in the future contemplates that we ourselves will have at least two-thirds of the funds required to do this. The remainder or the other one-third, will come along over a period of perhaps three or four years, so that it will be divided by the interval of time in-



involved and will appear as a very much smaller sum of money.

**Mr. Bell (Saint John-Albert):** In other words, although the total may be quite large, the financing of it will be staggered and will not create much of a problem in any one year?

**Mr. MacMillan:** That is correct.

**Mr. Bell (Saint John-Albert):** Can either Mr. MacMillan or Mr. Ross tell us where the CNR gets this money? Do they have it readily available? Is it not a factor in their own demands for money? It affects their own financing. They have to go to the market, interest rates are high and there are longer terms involved. It is a picture that I somehow do not understand; and it does not seem to be as modern or as efficient as I would like it to be. I say that from Air Canada's standpoint, not that of the CNR. It is just that you are the vehicle.

**Mr. MacMillan:** Yes. The capital requirements are the result of the aircraft acquisition program which is formulated some years in advance of deliveries because of the time it takes to produce the aircraft after the order is placed. So that there is nothing sudden about it. It appears through us, as the vehicle, but in the cash position it will be reduced to the cash requirements for a given year. I expect that these requirements might be as much as \$30 million, \$40 million, or \$50 million in a very heavy year. The remainder of the requirements for the acquisition of the aircraft in question will be produced by Air Canada itself at that time.

**Mr. Bell (Saint John-Albert):** I have one other question, Mr. Chairman, which might more appropriately be directed to Mr. Ross, although I do not mind if Mr. MacMillan comments on it. This morning we heard a great deal about why there should be a recapitalization of the whole financing structure of the CNR. For years the CNR has come to us and said: "Oh, this whole debt structure we have is horrible. We cannot give you a true picture of our company and of the great success it is having. This must be straightened out". We have extended you a certain sympathy about this, and whether or not this has acted as an incentive, you have worked away at a deficit and have nearly had no profit. Perhaps it might be a good idea to sell this club, or mortgage, over your head, because it has been successful in producing good operations.

I want to ask Mr. Ross specifically what he thinks of the necessity of having this straightened out. He may wish to answer in a philosophical way, as an accountant, or relate it to the specific situation. Does it cause a great deal of worry? There is no comment about this co-called recapitalization in the review of your audit.

**Mr. Howard Ross (Senior Partner, Touche, Ross, Bailey and Smart, Chartered Accountants):** Well, there is no necessity to do anything, but the argument is that the present mode of interest creates an unfair picture of the railway's operation. It looks as though they are making a deficit when actually they think they are operating efficiently and should be making a profit. It is a psychological matter, if you like—that there is something in the idea of having it constantly brought up that you are operating at a loss when, in point of fact, from an ordinary operating point of view, you are really operating very well, but have an accumulation of past debts. That is the argument.

However, from an audit point of view, so long as the statements show the actual interest that is being paid we are satisfied that they are reporting what is actually happening. Therefore, whether or not you recapitalize and change that picture is not really an auditing question; it is just a question of whether you believe this presents a fair picture with that accumulative...

**Mr. Bell (Saint John-Albert):** Do you agree, human nature being what it is, that if we did recapitalize it probably would bring about a fairly good profit picture, that the CNR just might go, willy-nilly, and spend all of its profit in ventures that would not be good for the Canadian people, and that it might be better to have a little bit of a mortgage held over your heads, similar to the church with a mortgage, the whole congregation of which works harder?

**The Chairman:** You really do not expect him to agree with you, do you, Mr. Bell?

**Mr. Bell (Saint John-Albert):** Well, Mr. Ross is an official of CNR.

**Mr. Ross:** The auditors are not particularly expert in human relations.

**Mr. Pascoe:** Mr. MacMillan, I just have one question on the auditors report that I think Mr. MacMillan perhaps should answer. It is for information.



On page 5, dealing with property investment, there is mention of road property, branch line investment and capital expenditure. It was in the amount of \$65 million in 1966 as against \$45 million in 1965, which is an increase of \$20 million. Is this an indication that you are keeping branch lines in good repair?

**Mr. MacMillan:** Yes, it does. I do not say that that flows necessarily from the figures, but you can take it on my statement that we are.

**Mr. Pascoe:** You are keeping all branch lines in good repair?

**Mr. MacMillan:** We are keeping the railway in an excellent state of repair.

**Mr. Schreyer:** Mr. Chairman, to use round figures, the long term debt position of the CNR is in the amount of \$1.7 billion, of which \$4 billion is held by the Government of Canada? Is that essentially the position?

**Mr. Ross:** That is right.

**Mr. Schreyer:** Now, have you got a break down of the \$64 million required for debt servicing last year showing how much went for debt-servicing to Government of Canada loans and debentures, and how much to CNR bonds? I am really trying to find out whether or not there is a significant difference in the rates of the two categories of long term debts.

**Mr. Ross:** Mr. Wells has the detailed figures.

**Mr. D. S. Wells, M.B.A., C.A. (Touche, Ross, Bailey and Smart, Chartered Accountants):** The interest on the funded debt to the public was \$58 million. The interest on Government loans was \$16 million. Also included in the \$64 million is amortization of discount of funded debt, plus a write off of the expense of borrowing the money over a period of time. That amortization figure was \$1 million, making a total of \$76 million. In reporting the \$64 million that you have referred to, a deduction is made for the \$12 million received from Air Canada on the loans to them.

**Mr. Schreyer:** I notice, not in the auditors' report but in the comparable sheet in the annual report of the railway, that reference is made to capital stock of subsidiary companies owned by the public. Is there a similar amount in the case of CNR itself, the parent company? Is there some capital stock of some significance still outstanding in the hands of the public?

**Mr. L. E. Boissonnault (Chartered Accountant, Touche, Ross, Bailey & Smart, Chartered Accountants):** That is so.

**Mr. Wells:** All the stock of the CNR is owned by the Canadian Government.

**Mr. Schreyer:** I beg your pardon?

**Mr. Wells:** All the stock of the CNR itself is owned by the Canadian Government.

**Mr. Schreyer:** That is what I thought; but, on the other hand, I seem to recall some mention of a small amount of capital stock still outstanding and held by. . .

**Mr. Boissonnault:** Excuse me, that is so; and it appears on the balance sheet as capital stock of subsidiary companies owned by the public, and the amount is \$4,345,185. Perhaps we can find the details of those minority holdings in this rather voluminous data book.

**Mr. Ross:** There may be minority interests in those subsidiaries that are listed in the report at pages 26 and 27.

**Mr. Schreyer:** Oh yes; but not the CNR itself?

**Mr. Ross:** No, no; some subsidiaries of the CNR.

**Mr. Rock:** Mr. Chairman, I think the CNR owns \$10 million worth of shares in Air Canada, and there is an outstanding amount of shares that have not been sold as yet. However, I believe that they have a total amount of over \$240 million worth of assets in Air Canada. Do you not feel, where only \$5 million worth of shares are issued, that they are operating with assets, and practically owe that amount of \$240 million in bonds?

**Mr. Boissonnault:** In other words, if I understand you correctly, you feel that there is a disequilibrium between the capital stock, a such, and the debt?

**Mr. Rock:** Yes.

**Mr. Boissonnault:** The capital ratio wrong? I think it is a bit unusual but I do not know that it has any, shall we say, dire consequences in a case like this. In other words, in a purely public company, with the stock owned by the public, this kind of relationship would be unthinkable because nobody would be prepared to lend to a company where the equity of the shareholders was small. But in this case I do not see that that has any unfortunate results.

**Mr. Bell (Saint John-Albert):** It is true that Air Canada is a public company.

but do you not agree that not having it set up on a comparable basis creates a distortion when we try to get a picture of it? This is part of the point I am trying to make. There is the weird situation of borrowing money through the CNR; the ratio is distorted; there is no provision for retirement; and there are no debentures or anything of that kind. You do not really know where you are at. Even without any accountancy experience whatsoever I feel that in this day and age, when Air Canada is going to be really big in its financial demands and is in direct competition with CPA, it might be better if someone were to modernize its accounting system. I agree that it has no dire consequence, but

somehow it does not give one a true picture of what the full operations are.

**Mr. Ross:** I think this is a question somewhat the same as the one you raised about the CNR's interest.

**Mr. Bell (Saint John-Albert):** Yes; I was approaching it from the opposite direction.

**The Chairman:** Do you approve of the auditors' report?

**Some hon. Members:** Agreed.

**The Chairman:** Thank you, Mr. Ross.

Gentlemen, that concludes our work. We will not be meeting this evening or tomorrow.

OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations  
and/or a translation into English of the French.

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Translated by the General Bureau for Trans-  
lation, Secretary of State.

LÉON-J. RAYMOND,  
*The Clerk of the House.*



HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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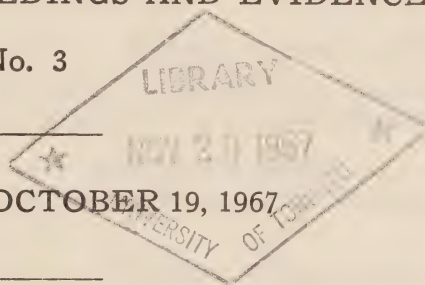
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

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THURSDAY, OCTOBER 19, 1967

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RESPECTING

Bill C-104, An Act respecting The Bell Telephone  
Company of Canada

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WITNESSES:

*Representing The Bell Telephone Company:* Mr. M. Vincent, President;  
Mr. A. J. de Grandpré, Vice-President, Law; Mr. R. C. Scrivener,  
Executive Vice-President (Operations); Mr. A. G. Lester, Executive  
Vice-President (Planning & Research); Mr. Jean Martineau, Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H. Pit Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Émard,  
Mr. Groos,

Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nowlan,  
Mr. O'Keefe,

(Quorum 13)

Mr. Orlikow,  
Mr. Pascoe,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—24.

R. V. Virr,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

MONDAY, September 25, 1967

*Ordered*,—That the names of Mrs. Rideout and Messrs. Andras and Groos be substituted for those of Messrs. Chatwood, Clermont and Crossman on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,

*The Clerk of the House of Commons.*

FRIDAY, September 29, 1967

*Ordered*,—That the name of Mr. Leboe be substituted for that of Mr. Olson on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,

*The Clerk of the House of Commons.*

TUESDAY, October 17, 1967

*Ordered*,—That the name of Mr. Émard be substituted for that of Mr. Deachman on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,

*The Clerk of the House of Commons.*

THURSDAY, October 19, 1967

*Ordered*,—That the names of Messrs. Deachman and Thomas (*Maison-neuve-Rosemont*) be substituted for those of Messrs. Rock and Lessard on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,

*The Clerk of the House of Commons.*



## REPORT TO THE HOUSE

FRIDAY, October 20, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### FOURTH REPORT

Your Committee has before it Bill C-104, An Act respecting The Bell Telephone Company of Canada.

Your Committee unanimously recommends that the capital stock charges in the amount of \$150,400, collected and paid to the Receiver General of Canada, and deposited in the Consolidated Revenue fund in the course of the past session (1966-67), by the Bell Telephone Company of Canada, be applied to the capital stock charges levied at this session.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*

(Concurred in October 24, 1967)

## MINUTES OF PROCEEDINGS

THURSDAY, October 19, 1967.

(5)

The Standing Committee on Transport and Communications met this day at 10.15 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Andras, Byrne, Cantelon, Émard, Groos, Howe (Wellington-Huron), Jamieson, Leboe, Macaluso, Orlikow, Pascoe, Schreyer, Sherman, Southam, Stafford—(16).

*Also present:* Mr. Deachman, M.P.

*In attendance:* From the Bell Telephone Company: Mr. M. Vincent, President; Mr. A. J. de Grandpré, Vice-President, Law; Mr. Jean Martineau, Counsel; Mr. R. C. Scrivener, Executive Vice-President (Operations); Mr. A. G. Lester, Executive Vice-President, (Planning and Research); Mr. A. J. Groleau, Executive Vice-President, (Administration).

The Committee resumed its consideration of Bill C-104, An Act respecting The Bell Telephone Company of Canada.

Moved by Mr. Sherman, seconded by Mr. Cantelon,

*Resolved,*—That the printed proceedings and evidence (Issue No. 42, dated March 14, 1967) of the Transport and Communications Committee taken during the 1st Session, 27th Parliament relating to Bill C-239 (C-104) be deemed part of the proceedings and evidence of this Committee for this Session.

Moved by Mr. Leboe, seconded by Mr. Byrne,

*Resolved,*—That the Committee recommend to the House that the capital stock charges in the amount of \$150,400., collected and paid to the Receiver General of Canada, and deposited in the Consolidated Revenue fund in the course of the past session (1966-67) by the Bell Telephone Company of Canada, be applied to the capital stock charges levied at this session.

The Committee then questioned the officials of The Bell Telephone Company regarding Bill C-104 and the brief that had been presented by the Company during the 1966-67 session.

At 12.45 o'clock p.m., the Committee adjourned until later this day.

## AFTERNOON SITTING

(6)

The Standing Committee on Transport and Communications met this day at 3.45 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Andras, Byrne, Cantelon, Émard, Groos, Howe (*Wellington-Huron*), Jamieson, Leboe, Macaluso, O'Keefe, Pascoe, Sherman, Southam, Stafford, Thomas (*Maisonneuve-Rosemont*)—(16).

*Also present:* Mr. R. C. Honey, M.P., the sponsor of Bill C-104.

*In attendance:* Same as morning sitting.

The Members continued their questioning of the officials of the Bell Telephone Company.

At 5.35 o'clock p.m., there being no further questions, the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*



## EVIDENCE

*(Recorded by Electronic Apparatus)*

**Thursday October 19, 1967.**

**The Chairman:** Gentlemen, I see a quorum. We have with us today Mr. Vincent, the President and other officials of The Bell Telephone Company of Canada. I would ask Mr. de Grandpré, Vice-President, Law, to introduce the gentlemen who are here this morning.

**Mr. A. J. de Grandpré (Vice-President, Law, The Bell Telephone Company of Canada):** Mr. Chairman and members of the Committee, on my left is Mr. Vincent, the President of the Company. On my right is Mr. Martineau who is working with me on this matter. To his right is Mr. Scrivener, Executive Vice-President of the Company. Behind me are Mr. Groleau, Executive Vice-President of the Company, and Mr. Lester, also Executive Vice-President of the Company.

**The Chairman:** Thank you, Mr. de Grandpré. Members of the Committee will recall we had one meeting with officials of The Bell Telephone Company of Canada. At that time they presented their brief but there was no questioning. It was my intention, as was set out in the Clerk's letter to them, not to have the brief presented again. I am sure you all have had an opportunity to re-read the brief that was printed in our Minutes of Proceedings and Evidence. There is no need to print it again. I would ask that the brief be tabled now and that someone move a motion that the printed proceedings of the session of the 27th Parliament relating to Bill C-239 be deemed to form part of the Proceedings and Evidence of this Committee this session.

**Mr. Sherman:** I so move.

**Mr. Cantelon:** I second the motion.  
Motion agreed to.

**The Chairman:** Members also will recall that under Standing Order 94 charges are levied to increase the capital stock. These charges are \$150,400 which The Bell Telephone Company paid in the last session. Since we did not get the bill passed in the

last session either in Committee or the House it is necessary that they pay these monies again. However, there was discussion, I believe, between House Leaders and they are pretty well agreed. It is up to this Committee, of course, to recommend to the House that the capital stock charges collected and paid to the Receiver General of Canada and deposited in the Consolidated Revenue Fund in the course of the 1966-67 session by Bell be applied to the capital stock charges levied at this session so they do not have to pay them twice. I think it is fair.

**Mr. Leboe:** I so move.

**Mr. Byrne:** I second the motion.  
Motion agreed to.

**The Chairman:** That recommendation will go to the House tomorrow.

**An hon. Member:** What was the amount, Mr. Chairman?

**The Chairman:** Charges of \$150,400 that were levied under Standing Order 94 for increasing of capital stock and paid into the Consolidated Revenue Fund.

**Mr. Howe (Wellington-Huron):** That will save you a little bit of money.

**The Chairman:** Gentlemen, you have the briefs which were sent out by the Clerk this past week. The briefs distributed to the members were: The Bell Telephone brief, the brief of Industrial Wire and Cable Company, the City of Montreal and the other briefs.

The Steering Committee had a meeting and set this date for the hearing and for the questioning of Bell. No dates for other witnesses have been set until such time as we can determine how long we are going to be with The Bell Telephone Company questioning. After the questioning of Bell is finished, whether it takes today, tomorrow, or another day, we will have another Steering Committee meeting to determine the dates other witnesses will be called. If it meets with your approval we will carry on that way as agreed by the Steering Committee.

We will abide by the same rules as always in this Committee in that we will go in rotation and have ten or fifteen minutes for questioning so that each one gets his opportunity to question. I am ready for questioners unless you have an opening statement, Mr. de Grandpré.

**Mr. de Grandpré:** No, I do not believe so.

**The Chairman:** Who wants to be first on the list?

**Mr. Groos:** I will be first on the list.

**The Chairman:** All right, Mr. Groos.

**Mr. Groos:** I have no doubt you have read the brief which has also been submitted to the Committee...

**The Chairman:** No; that brief has not been made public yet. Those briefs will be presented publicly when the people who prepared them are here. They are not given to the press, the public or anyone else, Mr. Groos and I do not think we should make a practice of referring to briefs that have not yet been presented to this Committee.

**Mr. Cantelon:** I think at this stage perhaps I might ask a few general questions. I was very much intrigued with the brief. I think it is the most self laudatory one that I have ever had the privilege of reading. Whether that should make us more suspicious or not, I do not know. However, it did not have that effect on me, I hasten to assure the gentlemen who are presenting it.

You are asking to increase your capital. This seems to me to be a perfectly logical request. Of course, I do not know whether the amount is too large or too small, or what. I would like, first of all, to ask just how you did arrive at this sum of \$750 million, and secondly, perhaps you could tie in with that why you want to issue preferred stock when you have never issued any preferred stock before? I will direct the question generally because I do not know which one of you will care to answer it.

**Mr. M. Vincent (President, The Bell Telephone Company of Canada):** To answer the first question, would you like to turn to Exhibit No. 1 at the end of the brief, which shows the different steps to get to the amount of \$750 million.

On the first line is the estimate of the capital expenses for the next ten years. The present level is around \$300 million. I think

this year we will be a little over, but not much. Probably at the end of this period it will be about double that amount. It will be about \$600 million. The average is somewhere around \$400 million a year for capital expenditures and actually the estimate came out to \$4.35 billion.

**Mr. Cantelon:** I wonder if I might interject here? This you are basing upon your present rate of expenditures?

**Mr. Vincent:** That is right.

**Mr. Cantelon:** Well then, with the way prices and everything are going today...

**Mr. Vincent:** Well, when you say the present I think it is largely based on the last ten years. I mean, it is a general trend over the years without going back a hundred years. But taking the last ten, the Company has doubled in the last ten years and it is our view that it is probably going to double again in the next ten.

I would like to point out to you that of this estimate of \$4.35 billion about 60 to 65 per cent—closer to 65 percent—is to meet the growth in terms of new demand. This is to meet new customers. For instance, we have five million telephones today; we had about half of that, let us say ten years ago. So, 65 per cent of this is to take care of new customers and new demands.

About 20 per cent is what we call "stand-still money", if you will, or sometimes we use the term "housekeeping money", and is to replace bits and pieces that have to be replaced to keep it at just the same level. This is not to meet growth. This is something we would have to do if we did not have one additional customer. It is the same as if you have your furniture repaired, but you do not buy another chair; it is just to keep what you have in good shape.

The other 15 per cent is modernization. These are things that perhaps could last a little longer but are getting quite obsolete. It is not the kind of service that people want any more. In round figures, then, there is about 65 per cent of this just to meet the growth, there is about 20 per cent to keep things in good shape, and about 15 per cent to modernize.

I would like to say with regard to the 60 per cent to meet growth that we are not going to put in antiquated equipment; I mean, in a sense the new things to meet the new customers are going to be more modern



than what we have. So there is an element of modernization when you put in new things to meet growth and there is also I suppose in the so-called "stand-still money". If we change a piece we are not going to put in an old piece. There is an element of modernization in this 60 per cent. This explains line 1, which is a big estimate in the amount of \$4 billion.

The other requirement of \$400 million for the next ten years is to maintain our equity in the same proportions as today in some of the subsidiary companies. When I say "subsidiary" they may be subsidiary or other investments where we do not have control. By far the biggest pieces in this are the equities in Northern Electric, Avalon Telephone Company in Newfoundland, the Maritime Telegraph and Telephone Company in Nova Scotia and Prince Edward Island, the New Brunswick Telephone Company and the Northern Telephone Company. Those are the big pieces. There are some smaller ones. Of the big pieces, the biggest is Northern Electric. Of this \$400 million there is probably over \$200 million—it may be \$225 million, something in that order—in our estimate for the additional Northern Electric equity that will be required.

So, this brings us to line three, which shows a total of \$4,750,000. Now, let me say this before I look at the other pieces. It is not too long ago that two thirds of the capital expenditure had to come from new money. We could only do about one third internal financing because of the fact, of course, that we are a regulated business, and the two main sources of internal financing are the depreciation reserve, which, of course, is getting bigger all the time, and whatever retained earning we have. The internal financing is now getting a little closer to one half instead of one third. Particularly because of the size of the depreciation reserve. Half of the capital expenditure has to be financed by external financing. For this reason you have heard many times, I am sure, and you may have read it in the financial papers, that the Bell is probably the largest user of new capital in Canada every year. So, the resources we have internally, the depreciation reserve which we estimate will provide \$2,150,000, and what is called here "other resources" on line five as retained earnings, provide for a total internal financing of \$2.4 billion. As I pointed out, \$2.4 billion is about half of \$4.7 billion and

this has changed in the last five years itself, because before it used to be only one third. Therefore, our net requirements or outside money, is \$2.3 billion, on line 7.

Now the debt ratio, or debt money, has always been fairly close to 40 per cent. The Board of Transport has ruled for some years now that we should have a debt ratio of not less than 40 per cent, and if we did they would not recognize it for rate-making purposes. We have kept this at 40 per cent or above, and I think by the time we finish the year it will be closer to 43 per cent; something of that order. So, for the purpose of this estimate we have assumed 40 per cent debt—bonds. Incidentally, we have a very simple capital structure consisting of either first mortgage bonds or common stock. If we assume 40 per cent, that means \$1 billion would come from bond issues. Then the rest would be \$1.3 billion in equity.

We have to assume some issue price here. We have to assume, in order to get the market—the market price is pretty difficult these days—an issue price of approximately \$42 or \$43. That would give us about 30 million shares. Thirty million shares at the par value of \$25 comes out to par value of the authorized additional capital required at \$750 million. I might point out that the book value of the stock today is \$39. I would also like to say that while \$750 million sounds like a lot of money, actually if you consider price index figures published by the government, this \$750 million is equivalent, perhaps, if you go back ten years, to a little more than the \$500 million which was—if you look on Exhibit No. 2—the last increase requested ten years ago, in 1957. I think actually today this \$750 million will not buy much more than the \$500 million we asked for ten years ago. So, while it looks like a big figure, it will not buy more than what we asked for the last time.

I have attempted now to answer the first question. You asked a question about the preferred stock. We do not intend to do it at the moment; I think what we are asking for is the power to do it if we think at some time in the future we may need it. As the requirements get larger these two markets, the common share market and the bond market, both could present some difficulties or a little higher cost and we would like to have the authority to go for preferred shares in the future if ever we find that according to the best advice from both our own financial people and our



outside advisers that we should for preferred, if the two other markets are difficult and if this would result in better cost of money. But, to answer your question, we are not asking for the power to issue preferred stock now. We do not know when we might do it.

**The Chairman:** But you could do it, if it were passed, right now.

**An hon. Member:** No, they could not.

**Mr. Vincent:** Mind you, I do not know if you want to discuss this article now but we could do it; we have the power now, but it is such a complicated way of getting it that we are asking an easier way of doing it.

**The Chairman:** That is what I want to clarify; you have that power now.

**Mr. Vincent:** We have that power now, except that the conditions... Can we go into this, Mr. Chairman?

**The Chairman:** I think so; I am sorry I brought that up.

**Mr. Cantelon:** Yes, I was really interested.

**Mr. Vincent:** Since you are talking about preferred, why do we not discuss this article now?

**The Chairman:** That is what we are discussing.

**Mr. de Grandpré:** Reverting to the question of preferred shares, we have this power under the Canada Corporations Act, but it is so complicated that as far as a company the size of Bell is concerned, it is almost impossible to follow the rules of the Canada Corporations Act. There would be three ways open to us: namely, a unanimous sanction by a vote of shareholders present at a meeting and representing two thirds of the shareholders—and we have over 256,000 shareholders, so it is impossible to think in these terms—the unanimous consent in writing of the shareholders or, finally, by a sanction of three quarters in value.

**Mr. Cantelon:** In effect what that says is: "Well, you can have it but you just try and get it." You will have some trouble doing it but by this new change that you are asking for, it is a comparatively simple matter so while I may have been a little out in saying that you are asking for a new power, I think, actually, it is a new power.

**Mr. de Grandpré:** We are trying, more or less, to make accessible a power that is available to all or to several other corporations

which are somewhat smaller in the number of shareholders but this, as Mr. Vincent just mentioned, does not mean that we are going to have preferred shares tomorrow. We just want to have the necessary flexibility to take advantage of a possible market that would make the cost of money slightly less expensive. If the cost of money is less expensive, of course, the subscribers will eventually benefit from it. This is the only reason why we are asking for this power under clause 3 of the Bill.

**Mr. Cantelon:** I think you gather, since I asked the question, that I am rather opposed to it and to your having it because, it seems to me, this tends to limit the opportunity for the very large number of shareholders that you have in Canada—and probably you will have more in the future—to share in the increasing prosperity of the Company because if you get a preferred share, no matter how prosperous the Company gets, you merely get a fixed rate of income on that preferred share. This might be advantageous for the Company but I thought that it was not quite so advantageous for the shareholders.

**Mr. de Grandpré:** The shareholders, as you realize, will have to approve any issue of preferred shares and if they do, this will be their acquiescence in this step forward, I suppose.

**Mr. Cantelon:** I think you have answered my question.

**Mr. Jean Martineau, Q.C. (Counsel for The Bell Telephone Company of Canada):** May I add this: the market may be such that it would be difficult to sell common shares when the demand might be for preferred shares.

**Mr. Cantelon:** We might have another 1929.

**Mr. Martineau:** The investing public might demand preferred shares and in such a case, if the Company needed money, then we would have to go into preferred shares. It is not a question of trying to deprive anyone of the benefits of the good management of the Company, but one of having the money when it is necessary. So far, it has not been necessary but it might become so and it is in case it is necessary. This is the main object.

**Mr. Schreyer:** Mr. Chairman, at this stage I just want to ask the witness whether the figure of \$750 million, which is referred to, is the amount of increase that Bell would like to have in the amount of authorized capital, but this really does not give a clear picture

of what the actual increase could be in their capital if this provision were implemented.

**Mr. Vincent:** Do you mean if we did not have to pay more than that? Is that what you have in mind?

**Mr. Schreyer:** Yes.

**Mr. Vincent:** We would have to come back sooner. This estimate...

**Mr. Schreyer:** No, no. You are asking for an increase of \$750 million in authorized shares—authorized capital.

**Mr. Vincent:** We expect that this will be for ten years as it has been every 10 years. If you look again at Exhibit 2, this is about the way we were in 1929, in 1948 and then in 1957. Sometimes we have gone for 15 or 20 years but recently it has been about 10 years. As you can see, it is 1948, 1957 and 1967. If this rate of growth, let us say, or if this money does not last 10 years then we will have to come back and ask, as we are doing today, and as we did in 1957.

**Mr. Schreyer:** That is not quite the point, Mr. Chairman, asking for an increase of \$750 million in authorized capital. But the shares are not issued at par. Therefore, an increase of \$750 million in authorized capital could mean a substantially greater...

**Mr. Vincent:** We think it is going to mean \$1.3 billion. It is right there. It is not like mines. We assume that the issue price is going to be quite above this because the book value, as I pointed out, is \$39, and we would expect that the issue price—of course, the price today, with the market the way it is, would not be \$43 if we had to make an issue. We could not sell it for that. But we are assuming that within the next ten years, we will be able to issue at a price of \$43 and we need for equity \$1.3 billion and we expect we will get a \$1.3 billion but the par value is \$750 million which would produce \$1.3 billion.

**Mr. Schreyer:** Mr. Chairman, I have other questions but not relating to the matter of raising additional funds so I will pass for the time being. My other questions have nothing to do with the point under discussion.

**The Chairman:** It is all right. Go ahead.

**Mr. Schreyer:** One of the other major aspects of the Bill has to do with a request by The Bell Telephone Company for a redefinition of its function, having to do with the definition of the words "telephone" and "telecommunications". I suppose you are well

aware that certain interested groups have made representations pointing out that what The Bell Telephone Company is asking for in this Bill is a tremendous widening of its spoken function, that it...

**Mr. Vincent:** There is no change in the function; there is no change in what we have been doing. In fact, there were changes in the words back in 1948 and this is merely using more up-to-date language, if you like, but it is not an attempt to get in other fields or to broaden our functions. This is using words that have to do with another piece of legislation.

**Mr. de Grandpré:** In reply to your question, I think that for a better understanding of this clause 7 of the Bill, we need to look at the power that was granted by Parliament in 1948. In 1948, Parliament granted a clarification of the then existing powers of the Company and I think it would be well to read again article five of the 1948 amendment. It reads:

It is hereby declared that subject to the provisions of the Radio Act, 1938, chapter fifty of the statutes of 1938, and of any other statute of Canada relating to radio and radio broadcasting and to the regulations made thereunder, the Company has and always has had the power to operate and furnish wireless telephone and radio-telephone systems and to provide services and facilities for the transmission of intelligence, sound, television, pictures, writing or signals.

and this is a power that we have enjoyed at least since 1948, if not before.

**Mr. Schreyer:** If you have that power and have had it for this period of time, why are you asking, in the Bill, for the substitution of the word "telecommunication" for "telephones"?

**Mr. de Grandpré:** Because we have realized, over the years, that whenever Parliament were discussing the emission of intelligence, sound, television, pictures, writing or signal, they always called that "telecommunications". They did call this "telecommunications" in the Canadian Overseas Telecommunications Corporation Act. They did the same thing in the Criminal Code. The Radio Act had a similar definition. Being in the same area of activities, we thought that it was normal to use the same words to define the same kind of operation.

**The Chairman:** That will include satellite too, will it not?



**Mr. de Grandpré:** It would include satellite...

**The Chairman:** Although it is a much broader scope or function than you have at the present time.

**Mr. de Grandpré:** I do not think so. Satellite is just another piece of hardware to do exactly the same thing that is now being done by a microwave system. When the signal is beamed to the satellite for transmission the satellite just reflects that beam back down to the ground station. Then it is picked up by the ground station and distributed to the various channels. If you have a microwave tower it performs exactly the same thing except that it does it in a horizontal way instead of shooting it up into the air and then transmitting it back down to the earth. Actually, the net result is exactly the same; it is just a different means of performing exactly the same thing. It is another facility for the transmission of intelligent sound and so on. "Satellite" is probably a glamorous word today, in the same way as "microwave tower" was away back in 1948 when we were before Parliament. However, it is performing exactly the same function, namely the transmission of intelligence. I am using "intelligence" in the very broad term to include all the things that are defined in Section 5 of the 1948 Act. But it is nothing different.

**Mr. Schreyer:** Does the witness mean to imply that the word "telecommunication" is more comprehensive or inclusive?

**The Chairman:** That is what he seems to imply.

**Mr. Schreyer:** I think this should be made very clear. I would like to ask the witness if he means to say that the word "telecommunication" is more comprehensive than the word "telephone" or "radio-telephone".

**Mr. de Grandpré:** I agree that it is more comprehensive than the word "telephone" if you mean, by "telephone", simply the communication of two persons by voice from one telephone set to another. Before we compare definitions I think it is necessary that we agree on them. If you mean, by "telephone", the kind that you have on your desk and the receiver at the other end has on his desk, that is one thing, but "telephone" as it was defined by Parliament in 1948 was more comprehensive than the limitative definition or under-

standing that one has today. It is very difficult for me to answer your question without knowing exactly what you mean by "telephone". If you mean by "telephone" the whole spectrum of communication between two persons then I do not think there is any difference between "telephone" and "telecommunication". This seems to be the definition accepted by Parliament in 1948. When you provide services and facilities for the transmission of pictures, for instance, would you call that "telephone"? If in your understanding of the word it does mean telephone then we are talking about the same thing and there is no disagreement between us.

**Mr. Orlikow:** The question is not what we think it means but what you think it means, and what you intend to do with this after you get it? That is the key question.

**Mr. de Grandpré:** We want to do exactly what we have done under Section 5, provide the necessary facilities and services for the transmission of intelligence, sound, television, pictures, writing or signals.

**Mr. Schreyer:** On that very point, Mr. Chairman the witness feels that in the rather immediate future there will be a fusion of telecommunication and other forms of communication media into one rather sophisticated electronic media of communication. For example, in the United States at the present time there seems to be a series of merges underway or already completed between telecommunications firms, publishing houses and so on. What is the purpose behind this? Is it largely because of company financing or is there something more than that involved?

**Mr. de Grandpré:** We do not intend to be anything but excellent common carriers. That is what we intended to be; that is what we have said in the past and that is what we intend to do in the future. However, we want to provide the best common carrier services that Canadians desire if they want to keep communications flowing from one side of the country to the other. But to clarify my answer, we do not want to get into broadcasting, for instance.

**The Chairman:** But would you not have the power to be in it if this passed?

**Mr. de Grandpré:** We would have the power to be in it provided the Department of Transport issues a licence and provided the new broadcasting...



**The Chairman:** That is not my question. You will have the power to apply for it if this Bill should pass?

**Mr. de Grandpré:** We have it now.

**May I complete my answer.**

I would not like to mislead the Committee. We also have added in this clause one clarification; we want to have the power to build alone or in conjunction with others. The reason for wanting this power is that we do not cover the country; Bell Canada covers only Ontario and Quebec and through subsidiaries we cover the eastern parts of Canada. There are some projects that we would like to do in conjunction with others, and I thought it necessary to clarify this particular aspect of the operation. As I said, we would like to do it alone or on behalf of others, the reason being that in several instances in the past—and I am thinking particularly of the defence communications that we have built for the department—we have acted more or less as agents for all the other common carriers in this country so that the department would not have to enter into negotiations with three, four, five or six different groups. It then would be up to us to agree on the contract with the department and either to request others to build the system according to specifications determined by the department or build them for us under an indemnity agreement. That is the reason we have added these additional words, and that completes my answer.

**Mr. Schreyer:** I have one very specific question. By virtue of what section of the Act do you have authority now, as you say, to engage in communications other than telecommunications?

**Mr. de Grandpré:** Because of Section 5 of the 1948 amendments. As a matter of fact, in this connection...

**Mr. Schreyer:** Do you have Section 5 before you?

**Mr. de Grandpré:** Yes, and I just read into the records.

**Mr. Schreyer:** I know you did.

**Mr. de Grandpré:** Do you want me to read it again?

**Mr. Schreyer:** Just the last portion.

**Mr. de Grandpré:**

... the company has and always has had the power to operate and furnish wireless telephone and radio telephone sys-

tems and to provide services and facilities for the transmission of intelligence, sound, television, pictures, writing or signals.

So having the power to provide services and facilities for the transmission of intelligence, sound and signal, is subject to the Radio Act.

I must say that since we filed our bid the Department of the Secretary of State and the Secretary of State herself have been in communication with me, suggesting, that after the words "the Radio Act", on page 5 of the Bill, we add "and the Broadcasting Act". I do not know whether it is still the new Act; I do not know whether it is the Canadian Broadcasting Act now instead of the Broadcasting Act, but at any rate I have agreed with the Secretary of State that this amendment could be inserted after the words "of the Radio Act". So it would be, "of the Radio Act and of the Broadcasting Act or Canadian Broadcasting Act" as it reads today. I have it here, but do not remember exactly what the name of the Act is.

**Mr. Schreyer:** I refer you to your brief on page 27, where you state in line 17:

As sole owner of Northern Electric, and beneficiary of its efficient and profitable growth, Bell has a real and important responsibility to see that Northern has access to new capital.

Why should Bell Telephone feel such a profound sense of responsibility for Northern's access to capital? Northern, after all, is a corporation standing on its own. Has it not got access to conventional sources of money in the money market like any other corporation? Why should a firm that is enjoying a privileged position and a monopoly situation use its special position to see to it that another corporation, even if it be a subsidiary, has access to new capital? I ask you, perhaps on an academic plane, does this not have the effect of spreading over from a regulated industry into an unregulated area of industry, monopoly advantages?

**Mr. Vincent:** May I take a little time to answer this as it is a very important question. I would like to answer, in the first place, why we would have a controlling interest—let us say 51 per cent for the sake of a figure; and I would like to go on as to why we would like to own it 100 per cent after that.

I think it is because of the kind of quality of service, quality of transmission particular-

ly, which people are taking for granted today. What is happening on this continent—the same thing has happened in the U.S. and it has happened here—is happening in other parts of the world, but not all over. There is a way to give the kind of service that we have; that is that the operating company, the telephone company, the people who operate it must be able to estimate the kinds of services that people want, that people are demanding. To be able to give this kind of service you have got to control the manufacturing arm. You have got to control the quality of the production, and you have got to control the cost, and you have got to control the delivery and the timing when this is provided. This is what has made a success of what is going on in the U.S. and what is going on here in Canada. You need, along with this, access to research and development. If you cannot have your own, you have to find it somewhere. In our case, we buy a good part of it but we also have our own which is the largest research centre in the country.

What people still do not understand today is that the telephone network, this big machine which people visualize as a physical thing that is more or less flexible, a little rich, is not that at all. There is not a minute in the year when something is not changed in the network. Three hundred and sixty-five days of the year, every minute of the day, somebody, somewhere is making changes. Sometimes it is a small piece and sometimes it is a hell of a big office being changed. But something is changing all the time. You have got to have co-ordination and planning particularly. It starts with the planning; it starts with the people thinking together in research, the people who manufacture a thing, the people who instal it, and the people who operate it. And things go on every hour. You will not have this if you do not control the manufacturing arm.

This, as I said, goes on with the AT and T in the States, it goes on with Bell of Canada, IT and T have the same kind of thing, and General Telephones have the same sort of organization. There was a committee of the members of the House in England not too long ago, where they were trying to get to a one supplier type of approach—the kind of approach that is going on on this continent. Rather than have half a dozen they would have to try to amass the equipment of all these suppliers, while not having the same

control as we have here. This is realized in England today; it is realized in France. And kind of co-ordination.

**Mr. Schreyer:** Mr. Chairman, I would not doubt for one moment that there are certain advantages just as the witness suggests. But will you not admit that certain abuses can arise? I will ask this question. What proportion or percentage of the total expenditures, made by Bell Telephone for equipment and supplies is made to Northern Electric? Can you give an approximation?

**Mr. Vincent:** We buy about two-thirds of what Northern is producing.

**Mr. Schreyer:** No, no; I did not mean that.

**Mr. Vincent:** I am coming back to that. Do you mean the percentage of our purchases, or expenditure as a total? Or are you talking about purchases of plans?

**Mr. Schreyer:** Of what?

**Mr. Vincent:** Purchases of equipment and plants. You are not talking of the labour content?

**Mr. Schreyer:** No, no.

**Mr. Vincent:** You are talking about what we buy. What percentage of that is Northern's?

**Mr. Schreyer:** That is right.

**Mr. Vincent:** Well, I guess we buy for a couple of hundred million a year from Northern. Their sales of what they produce themselves are about \$300 million. We buy two-thirds of that which is about \$200 million.

**Mr. A. G. Lester (Executive Vice-President, Planning and Research):** We purchase about \$200 million of their manufactured products. Of our total purchases—of course, we have purchases of many other things besides plants and equipment—this is about two-thirds. In other words, we do have purchases from people other than Northern. But of the plants and equipment proper, that is the technical part, I would expect that our purchases from Northern represent about 85 per cent.

**Mr. Schreyer:** Yes. It is as substantial as I thought it would be. The problem that arises, then, is: how is the public to know or be satisfied that these transactions are, in fact, arm's length transactions?

**Mr. Vincent:** Well, this has been gone into quite frequently by the Board of Transport Commissioners because we are regulated.



**Mr. Schreyer:** Yes, I know.

**Mr. Vincent:** They have had the chance to look into these kinds of things you are talking about, and not in a superficial way. Some of these things have gone on for two weeks.

**The Chairman:** Mr. Vincent, I should point out to you there are many on this Committee and many in Parliament who do not agree with the system of the Board of Transport Commissioners, so we might have to go through it here.

**Mr. Schreyer:** Mr. Chairman, I would like to ask this final question for the present. I certainly would agree that on the one hand, the effect of what Bell is asking for in the Bill would be beneficial in certain respects. The economy of scale, efficiency of operation, and a greater capacity for increased research and development, would all be beneficial and presumably in the national interest. But, to offset against that, it seems to me we must contend with the possibility and danger, and I put this question: Would there not be a trend toward too much concentration in the communications industry, thereby creating the danger to the national interest of having control in the communications industry lying within fewer and fewer hands? Once this pattern was set in motion it could lead to such a degree of concentration that we would, in fact, be in danger of a few powerful firms in the communications industry having their thumb on the key.

**Mr. Vincent:** You are touching on the most important point in the whole subject. This is not only my view of this industry. It is the same in government as it is in corporations. Sometimes we try to do many things and set many goals. In our endeavour to accomplish so much we sometimes get into situations where there are conflicting goals. We then have to decide what course to steer—whether to go in the centre, or a little to starboard or to port. For the good of the economy, the Department of Trade and Commerce, the Department of Industry and the Economic Council pretty well all advocate, the need for larger units to compete in the world market. They go far in advocating certain mergers if we are going to compete in this day and age on the world market.

Today there is far more talk of competition on the world market than ever before, and Canada has made quite a good start. Northern has been able to do it. Just in recent years. To compete on the world market a

company has to be fairly big and fairly efficient. There are just about five communications suppliers that can compete on the world market. There are Government departments which advocate this kind of thing; and they go farther than that and say that if, in certain areas, industries are found to be inefficient, too small, or unable to acquire the skills necessary to compete on the world market, we should try to get into something else. Let us do what we can do well. On the other hand, of course, there is legislation such as the Combines Act which really was written back in the 1930's, or thereabouts, in the spirit that competition is good, per se, if you will—that if we have competition this is good; but this is not always necessarily so. One can think of situations where the consumer is better off without competition by many people doing an unsatisfactory job. This legislation was written when there were tariff walls, and it was designed to promote the idea of domestic competition. These policies are in conflict and you have to decide which is preferable.

I agree with you, really. It is time, as you say, that there is going to be less competition in the country if there are industries big enough to compete on the world market.

**The Chairman:** I will have to pass you right now, Mr. Schreyer, and come back to you, Mr. Allmand.

**Mr. Allmand:** Sir, at page 20 you point out the comparative costs to consumers for the use of telephones. Bell shows to advantage because it appears that the people of Ontario and Quebec enjoy a lower rate than do other countries. How do business rates in Ontario and Quebec compare with those of the United States and other countries?

**Mr. Vincent:** Have we got that?

**Mr. R. C. Scrivener (Executive Vice-President (Operations), The Bell Telephone Company of Canada):** The comparison with the United States, for example, is as favourable, or perhaps even a little more favourable.

**Mr. Allmand:** You mean the ratio?

**Mr. Scrivener:** Yes.

**Mr. Allmand:** Therefore, the cost to the Canadian businessman is...

**Mr. Scrivener:** ...relatively better than in the United States, if you use all these comparisons. Now, the situation outside of North America is different and the comparisons cannot really be made because a great many of



the national systems do not provide all the businessman's service. In other words, they terminate the line at his premises and he may provide his own gear and apparatus.

For example, in the United Kingdom today they are in an awful mess with this because when they try to modernize they cannot get at that piece of the network because it does not belong to, nor is it part of, the general system. However, when you make a comparison between, for example, Canada and the United States, Canadian business rates basically are, on the average, lower, for the same kind of service and the same size of place, than in the United States.

**Mr. Allmand:** What percentages of Bell's income are represented by telephone and related services provided by Bell and by income from Northern?

**Mr. Vincent:** You mean what does the dividend from Northern amount to in dollars?

**Mr. Allmand:** Yes. How does it compare with your total income from your telephone and related services?

**Mr. Vincent:** You are not speaking of the total net income but of the percentage coming from Northern?

**Mr. Allmand:** That is right.

**Mr. Vincent:** You are not speaking of total revenues. I thought you used the word "revenues", but you are not speaking of revenues. You are speaking of the net income?

**Mr. Allmand:** That is right.

**Mr. Vincent:** Northern brings in about \$8 million out of \$124 million.

**Mr. Allmand:** You have said that your company buys about two-thirds of Northern's production. I presume the other one-third is sold on the market to outside buyers. Is the market restricted to Quebec and Ontario or do you sell on the total international Canadian and American market?

**Mr. Vincent:** We sell to the rest of Canada, the United States and the world. In recent years Northern has been successful in entering the international market and has sold to Greece, Turkey, Iran, Venezuela, Nigeria and quite a number of other places.

**Mr. Allmand:** Is Northern the biggest producer of this type of equipment in Canada?

**Mr. Vincent:** It is not only the biggest producer in Canada but it is the only producer in a number of things, particularly in

switching equipment. There are other producers of cable and telephone sets, some microwave systems and things of that kind but in certain types of electronic switches or crossbars, I think it is the only one.

**Mr. Lester:** Yes, this is right. There is one other manufacturer in Canada of the older type of Strowger step-by-step switches, but Northern is the only manufacturer of modern switching equipment such as electronic crossbars. This is really the foundation of its foreign trade.

I should point out that as of now Northern has approximately \$53 million worth of foreign orders.

**Mr. Allmand:** What percentage of its income comes from the international market?

**Mr. Lester:** As Mr. Vincent has pointed out, it has only fairly recently entered the international market. There has been a breakthrough within the last two or three years. If I remember the figures, I mentioned that they had orders worth \$53 million on their books, and if I remember the figures correctly, this year these sales will amount to about \$20 to \$25 million out of total sales of about \$300 million; so we are speaking of about 8 per cent.

**Mr. Allmand:** Generally speaking, is Northern the only company with its own research facilities in the sales field with this type of equipment?

**Mr. Lester:** In Canada?

**Mr. Allmand:** Yes.

**Mr. Lester:** This is true in Canada. As Mr. Vincent pointed out, there are really only four or five foreign competitors in the international field. All of these companies which are, generally, in Europe, have their own research facilities.

**Mr. Allmand:** At page 25 you mention the development of micro-electronics. Will this type of development lead to expanded international markets and to areas other than the traditional telephone uses and so forth?

**Mr. Lester:** I would think so. Perhaps I should use the easier terms. You get a lot of names for micro-electronics and integrated circuits and thin film circuits and this kind of thing. This is the scientific trend of the present day. These types of components are going to be included in all kinds of electronic systems, the telephone, telegraph or what have you, pictures; medical research and so on.

**Mr. Allmand:** Are these components being used in computers?

**Mr. Lester:** Yes, very much so. You perhaps know that about two years ago Northern started what they call an Advanced Devices Centre here in Ottawa. Close co-operation between Northern Laboratories and the Advanced Devices Centre has resulted in the successful production of these electronic units both in the so-called thin film process and the sputtering process which gets you about 40 components on an area approximately one-tenth of an inch square. They are fully intending in their research program, which I went over with them some days ago, to progress in this line during the next five years. We expect this will be an important factor in the spread of Northern's export and domestic business. Of course the electronic switching system which we now have—the first installation was in Montreal and one in Toronto is coming out shortly—has a lot of these micro-electronic components right now.

(Translation)

**Mr. Émard:** Mr. Chairman, I would like to repeat a question which has been asked by one of my predecessors, but in a different form. I have read some unfavourable comments in the newspapers about Bill C-104, and more particularly and repeatedly that you do not have the authority to occupy the field of communications, that you violate your charter by proclaiming that you occupy the field of communications. Do you violate your charter by occupying a field other than that of telephony?

(English)

**The Chairman:** Excuse me for a moment, Mr. Émard, while I switch on the interpretation.

(Translation)

**Mr. Émard:** Do I have to start over?

**Mr. Chairman:** Yes.

**Mr. Émard:** I would like to repeat a question which has been asked by one of my predecessors, but in a different form. I have read unfavourable comments in the newspapers concerning Bill C-104, and more particularly and repeatedly that you do not have the authority to occupy the field of communications, that you violate your charter by proclaiming that you occupy the field of communications. Do you violate your charter by occupying a field other than that of telephony?

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**Mr. Vincent:** We are fully authorized to occupy the field of communications and we do not violate our charter in any way. I would ask Mr. de Grandpré whether he would like to add a few words to this.

**Mr. de Grandpré:** As I have indicated a while ago in answering a question asked by Mr. Schreyer, to understand the exact bearing of the criticism which has been made and to which you refer, reference must also be made to the amendment passed by Parliament in 1948. That year, we were authorized to operate and supply wireless and radio telephone networks, as well as establish services and installations for the transmission of thoughts through sound, television, pictures, documents or signals. After receiving confirmation of such corporate powers in 1948, I am firmly convinced that that gave the Company free scope to occupy the field of communications in general. Whether by voice, picture, sound or electrical impulses, the whole field was covered so that the Company, which was founded to allow people to communication among themselves in any way possible, could have all the latitude required to be able to give the people who want to rent its services, the best communications that Canada can offer. That is what we have done until now. What we intend to do in the future will certainly not violate the provisions of the amendment of 1948. At present, we want to redefine very simply, in words which are accepted by Parliament in other statutes, what are the powers of the Company.

**Mr. Émard:** If I understand you correctly, you have no intention of occupying any other field than that of telecommunications? For example, rumor has it that you intend to buy a scap company.

**Mr. de Grandpré:** We have here another problem: that which is raised by Section 8 of the Bill. However, as much and as long as we remain with Section 7, I can state that we have no intention of using telecommunications for any other purpose than to allow people to communicate between themselves. If you want to refer to Section 8 of the Bill, you will find that we have the authority, under our original charter, to operate a telephone company and an electrical or electronic equipment manufacturing company. We have operated a telephone company and we have also, at the start of the Company's operations, in 1880, in accordance with our original charter, operated a manufacturing



department. Later, we established a separate company for manufacturing, which bore many names through the years: it was called Northern Electric and Manufacturing Ltd., The Wire and Cable Company, Imperial Wire and Cable Company Ltd., and finally Northern Electric Company Ltd. Later, we also became owners of other telephone companies, either by buying shares in those companies, or by buying their assets. All these operations were authorized under our original charter, because, under that charter, we have the right to invest in companies that own a telephone or telegraph line of communication, or in companies that have the right and the authority to establish communications by means of the telephone.

We must refer back to the situation that prevailed in 1880: in 1880, a specific authority was granted to companies, for example: the right to use communications by telephone. I believe that to-day, it could be said that every individual or every company has the right to use the telephone. Therefore, strictly speaking, we could invest in any kind of company. But, since 1880, we have never gone outside of telephone operations or of our Northern operation. What we ask for, in fact, is the authority to diversify our investments. As you see by the original charter, we had the right to invest only as shareholders of companies of that kind. The English text read: "and to become a shareholder of such corporations" and the French text read: "de devenir elle-même actionnaire de toutes telles corporations".

To-day, the way to finance businesses is more diversified than it was in 1880. Therefore, instead of being limited to shares, we ask for the authority, under Section 8, to invest, not only in shares, but also in stocks, bonds, debentures, all kinds of securities, always in companies operating in related fields. In short, it is more restrictive, if you want, than what existed in the original charter with regard to the kinds of corporations in which we could invest. As to the nature of the investment, it is less definite.

**Mr. Émard:** I have another question to ask, based on criticisms I have read. It is said, while we are speaking of shares, that when Bell Telephone issues supplementary capital, the interests of the present shareholders are diluted. Is this your opinion?

**Mr. de Grandpré:** The Bell Telephone Company has always offered its new shares to its shareholders by means of options. Instead of

putting the shares on the market, for the general public, shareholders are given priority through options. In other words, each share owned by a shareholder may give one option, and depending on the ratio between the number of shares we wanted to put on the market and the number of existing shares, each share gave, at certain times, ten options at the issue price; at other times, twelve, at still others, fourteen, but each time, priority was given to the existing shareholders. It was only after the existing shareholders had refused to invest new capital in the Company that members of the general public could become shareholders. Therefore, the decision to dilute his capital belonged to the shareholder himself, and it was not the company which imposed this decision on the shareholder.

(English)

**Mr. Groos:** May I ask a supplementary question here? Have you found any difficulty in selling these shares to people living outside this country?

**Mr. de Grandpré:** We have never registered outside this country in order to create a greater participation of Canadian ownership in the Company. Whenever the rights are put on the market they are offered only to Canadian shareholders. Over the years the proportion of the American interest in the Company has gradually reduced because we have increased the number of Canadian shareholders. I cannot say whether the absolute number has remained the same or whether it has decreased.

**Mr. Groos:** But a shareholder living in the United States. . .

**Mr. de Grandpré:** Cannot take advantage of our share offer.

**Mr. Groos:** . . . cannot take advantage of your share offer.

**Mr. de Grandpré:** We are not registering these issues with the Securities Exchange Commission in Washington.

**Mr. Vincent:** There is an interesting point about this, Mr. Groos. When I came into the Company forty years ago 37 to 38 per cent of the stock was owned by Americans because at that time it was not so easy to get enough capital in Canada. That same 38 per cent is today 2.2 per cent, not because they have divested themselves of their shares—it is the



same number of shares, around 750,000—but because we financed on the Canadian market with new money all along. So this same number of shares which was then 38 per cent is now only 2.2 per cent.

**Mr. Groos:** It is very interesting.

**Mr. de Grandpré:** It takes time to do these things.

**Mr. Groos:** Perhaps I could ask a further supplementary question. Do you feel that this application for the issuing of preferred stock is sufficiently broad to suit your purposes? Would this cover a convertible feature?

**Mr. de Grandpré:** Yes, I believe so because the provisions of the Bill state that all terms, conditions, limitations, restrictions and rights will be spelled out in the by-law creating the shares. I think we would have enough elbow room to offer a full spectrum of securities.

**Mr. Groos:** Thank you, Mr. Chairman.

(Translation)

**Mr. Émard:** On page 30 of your brief, you mention:

In conjunction with the Northern Electric Company, Bell Canada is instituting an experimental research program on communications by satellite.

Does Bell Telephone consider it has the right to transmit waves via satellite?

**Mr. de Grandpré:** Certainly, because a satellite is only another means of transmitting waves. Instead of transmitting them by cable, instead of transmitting them by a microwave system, you use a satellite which receives electrical impulses, and these are afterwards retransmitted to earth. This is simply a new kind of apparatus to do the same work.

**Mr. Émard:** Do you mean that you have either the equipment or the means of manufacturing the equipment you will need for transmitting waves by satellites?

**Mr. de Grandpré:** We have the authority to build a satellite and the authority to use it to transmit waves.

**Mr. Émard:** I have a last question of general interest, which perhaps does not concern the brief you have submitted here. All sorts of rumors are flying to the effect that the Company intends to transfer its headquarters to Ottawa. Is this true?

**Mr. Vincent:** No, there is no truth to the matter. The trouble is that, in spite of denying the fact on the CBC and also in writing in our employees' journal, people say: "What-

ever they say, they are going to move all the same. There is nothing to do; it is being said and they will deny the rumour, but we do not believe them."

(English)

**Mr. Pascoe:** Mr. Chairman I was going to deal with the telecommunications satellite but I think perhaps that has been pretty well covered. I just want to ask two or three questions with regard to the Estimate of Requirements and Resources. How do you depreciate this item of \$2,150 million under Equipment and Salvage? Is it written off in a certain number of years?

**Mr. Vincent:** There are all kinds of components in the network; some of the pieces can last 40 years, others 10 years and others 20 years. But we have some very detailed studies of depreciation rates. This is an item which, incidentally, because of its size, has always been gone into at great length by the Board of Transport Commissioners every time we have been there. I might answer your question in this way: that the over-all depreciation in the total is about five per cent.

**Mr. Pascoe:** I see. And you mention salvage there. What does that involve?

**Mr. Vincent:** Do you want to answer that, Mr. Lester?

**Mr. Lester:** When we replace a piece of equipment, say a cable or part of a central office or what have you, there is, in a number of cases, some re-use value. We can take some of the equipment and use it somewhere else. This represents a salvage value which might be 10 or 15 per cent because we do not have to buy new equipment to replace it with so this is the amount we fully depreciate the total book cost—the first cost of the equipment less this estimated salvage at the end of its useful life—and we divide that by the number of years of its life which are calculated, as Mr. Vincent says, for various types of plant to be anywhere from 10 years to—well, in fact, we have one which is seven years up to about 40 years. There are about 100 different categories of plants for which separate studies are made and salvage is not a big item except on a few items of central office equipment. In the case of poles, obviously the salvage is a negative amount. It would cost you more to take them out than to leave them there. In the case of wire, it is an appreciable amount because the price of copper is high, and so on. So this is what the salvage thing is.

**Mr. Pascoe:** Does some of that salvage go back to Northern Electric? Do they allow you full...

**Mr. Lester:** In the case of copper wire only, or scrap cable from which they salvage the copper. They sell it, actually, to junk dealers at a bulk rate.

**Mr. Pascoe:** There is another question here in Mr. Vincent's annual report where he says ...President, presided. Represented in person or by proxy were 168,974 of the Company's 255,000 shareholders,...

How many of those would be actually in person and how many by proxy?

**Mr. Vincent:** At the annual meeting? It could be as high as 200 to 300.

**Mr. Pascoe:** There would be that many there, would there?

**Mr. Vincent:** Yes.

**Mr. Pascoe:** Do the proxies state anything definitely or just name somebody as their representatives?

**Mr. Vincent:** It names three, if I recall. The proxy says that if you cannot come would you just name this name or this name. I think it names the President, the Chairman and one of the...

**Mr. Pascoe:** No, but does it indicate any expression of opinion on the shareholder's part or does it just name a person to vote for him?

**Mr. Vincent:** It names three people to choose from to exercise the proxy, Mr. Pascoe.

**Mr. Pascoe:** In regard to the possibility of issuing preferred stock, preferred shares, would they have voting rights?

**Mr. Vincent:** Would the preferred have it? That is part of the conditions and terms. We do not know what would happen. That would be part of the conditions and terms to be approved by the...

**The Chairman:** Preferred stock has certain conditions that may be voting or non-voting, Mr. Pascoe.

**Mr. Pascoe:** I do not have it here at my fingertips but how much would you say that you spend in a year in research?

**Mr. Vincent:** This year it would be about \$25 million and according to the estimates for next year that people have just arranged it might be close to \$40 million next year.

**The Chairman:** That is done by Northern Electric, though. That is not done by The Bell itself.

**Mr. Vincent:** We do absorb some of these costs in The Bell but what the Chairman is saying is that this is performed in the buildings of Northern Electric but the cost is reflected back.

**The Chairman:** I just want to clarify the situation, sir, that you yourselves do not have a research arm at Bell of Canada.

**Mr. Vincent:** That is right. Right now it is under Northern.

**Mr. Pascoe:** What I was trying to get at—and I may sound pretty far out on this—is a write-up here not too long ago,

Communications outlook incredible... which talks about video-telephones and being able to see people. Are you working along that line at all?

**Mr. Lester:** Yes, I would say we are. If I might just go back for a moment to what Mr. Vincent said. The actual research expenditures by Northern in 1966 were \$25 million. This year I guess it will be close to \$28 million or \$29 million and next year it will probably be \$30 million and maybe \$35 million. We are having the main thrust on certain things but in the area that you are talking about, yes we are working in the video-phone area, in the area of micro-electronics that I mentioned to the other gentleman and particularly in looking at improved telephone sets and switching equipment.

**Mr. Pascoe:** In this it says, ...video-telephone, which undoubtedly will be in common use relatively early in our next 100 years.

Would you say that is correct?

**Mr. Lester:** One hundred years gives me lots of leeway.

**Mr. Pascoe:** Relatively early, it says.

**Mr. Lester:** I think that video-telephone will certainly be in use by 1975 and there are experimental ones now, of course. We have some at The Bell Telephone Pavilion at Expo. A further new round of experimental video-phones which is underway at The Bell laboratories is going to go into an extensive field trial about 1971 and I would expect that in the 1972 to 1975 era we will have fairly substantial use of video-telephones in Canada.



**Mr. Pascoe:** We will not be able to answer our telephones from the bathroom then.

**Mr. Lester:** Oh, you can always turn it off.

**Mr. Pascoe:** I have just one more far out question now on this thing. It talks about laser beams. It says that:

It has the potential to carry, on a single beam, as many as 10,000,000 television circuits or 1,000,000,000 telephone conversations.

Is that something that might be coming?

**Mr. Lester:** I think there are a couple of zero's too many in there. The laser beam, because it is in a tremendously high frequency, can give you very broad coverage and, therefore, many hundreds of thousands of circuits and I think if you were to say that you could get upwards of 100,000 television channels or upwards of one to two million telephone channels, this would be a little bit off. It is not millions and billions. It is hundreds of thousands and millions. Laser beam, of course, is being used for many purposes besides telecommunications but a lot of experimentation is going on and we can demonstrate it in a limited way now. I would expect that the laser beam is perhaps five years beyond the video-phone. It is in the 1975 to 1980 era for extensive use and its main use, of course, is going to be on the very heavy traffic routes where you need a lot of any of these things.

**Mr. Pascoe:** One final question. Do you see the time when these unsightly telephone cables overhead will all be taken down and underground cables installed?

**Mr. Vincent:** We are about 50 per cent there now.

**Mr. Lester:** We have a policy in the company that the first choice for new cables going in is to bury them. There are some parts of the country that you just cannot bury cable in. If you go around Kingstom where you have the outcropping of the Laurentian Shield it is pretty difficult to bury cable, but quite a high proportion—I would assume about 60 to 65 per cent of our new stuff—is going in.

**Mr. Scrivener:** Seventy per cent of our total wire mileage is underground.

**Mr. Pascoe:** Thank you, sir.

**Mr. Orlikow:** Mr. Chairman, I would like to ask if it is fair to say that there has been a communications revolution not only since you received your original charter but even

since 1948 when Parliament amended your Act to bring it up to what they thought was up-to-date at that time? Is that a fair statement to make?

**Mr. Vincent:** A technological revolution—I think that is a fair statement.

**Mr. Orlikow:** There are things being done now which certainly you may have known about or thought might come about, but that Parliament certainly did not know about in 1948.

**Mr. Vincent:** That is right. And I do not think we know what is going to come up in the next few years either.

**Mr. Orlikow:** And so it is possible that powers which you say were given to you—things you are doing now under the clarification of 1948—were not even thought about by Parliament in 1948, is it not?

**Mr. Vincent:** I do not understand.

**Mr. Orlikow:** Let me give you a concrete example. Under the powers you were given by Parliament you have the right to put telephone lines down the streets in all sorts of cities. Now I suggest to you that when Parliament was giving you that right they were thinking in terms of you acting as the agent so that Mr. Schreyer could call me if he wanted to or that Mr. Macaluso could call me if he wanted to. Am I right? That is what Parliament was thinking of.

**Mr. de Grandpré:** Back in 1880.

**Mr. Orlikow:** Whenever it was done.

**Mr. de Grandpré:** That is correct.

**Mr. Orlikow:** We now have something which has come up since 1948. We now have cable television. Am I correct? Do the cable television companies use Bell Telephone lines?

**Mr. de Grandpré:** In part.

**Mr. Orlikow:** Do they pay Bell Telephone a fee?

**Mr. de Grandpré:** Yes.

**Mr. Orlikow:** Who decides what the fee shall be?

**Mr. de Grandpré:** That is a matter of negotiations between the cable TV operator and the companies.

**Mr. Scrivener:** The market place.

**Mr. Orlikow:** Was the Transport Board ever consulted?



**Mr. de Grandpré:** On this aspect, no. This is not regulated.

**Mr. Orlikow:** Because I am a member of Parliament and live in the city of Ottawa, I am paying a pretty substantial tax on the home in which I live. I think it is too high. Does the city of Ottawa, the city of Montreal, the city of Toronto, or any other city in which Bell Telephone has an arrangement with the cable TV Company, get any revenue from this?

**Mr. Scrivener:** Yes. As we all know, each municipality functions in its own way. The City of Ottawa may do it one way, the City of Montreal another, and another city another way but, in effect, that plant is taxed, directly or indirectly.

**Mr. Orlikow:** Which plant?

**Mr. Scrivener:** I am sorry, I used a technical term there. That CATV cable or that telephone cable is taxable property. There may be special taxes.

**Mr. Orlikow:** I do not follow you when you say it is taxable property.

**Mr. Scrivener:** It is in a municipality and the municipality has the power to tax that property just the way it has the power to tax your house. It is property in the municipality which is subject to municipal tax. Just as your house is a property in the municipality subject to tax, so is a piece of telephone equipment in a municipality a piece of property subject to municipal tax.

**Mr. Martineau:** Including the wires.

**Mr. Scrivener:** The wires that are there are subject to tax. Any new wires that are added are subject to tax.

**Mr. Orlikow:** Do you mean that each city and each municipality bargains separately?

**Mr. Scrivener:** Each municipality assesses its property in its own way, sets its own mill rate in its own way and decides how it is going to raise its own taxes in its own way. You might levy a certain tax on a certain piece of property in Ottawa but the people in Kingston have their own municipal government and tax their people as they see fit. In other words, the municipal taxation system is under certain provincial jurisdiction, as I understand it, but basically, within that, the municipalities have the latitude to raise their taxes in the manner they see fit on real property.

**Mr. Orlikow:** Are you suggesting, for example, that the municipality of Nepean has the know-how and technical staff to bargain in any equitable way with Bell Telephone on this?

**Mr. Scrivener:** We do not bargain with the municipality about our taxes; they tell us what they are. We are not in a different situation.

**Mr. Orlikow:** Do they know what revenue you are getting from the cable TV company?

**Mr. Scrivener:** In Ontario we have to report the revenues and we are taxed on the basis of our revenue in the municipality. This is part of the Ontario Assessment Act.

**Mr. Orlikow:** Do they know what the profit is on the transaction?

**Mr. Scrivener:** It is all taken care of in the Act. Revenues enter into it. Profit does not enter into it because they are not interested in whether or not you make a profit; they tax you on your revenue. Mr. Orlikow, I am not trying to be difficult. Real property is taxed. In some cities they level a special tax on a special piece of real property, but in all municipalities they tax all real property at some valuation, at its revenue-producing valuation or at its in-place valuation.

**Mr. Orlikow:** But you already have, because of this special Act, the original Act, the power to put up telephone lines and to monopolize the building of them.

**Mr. Scrivener:** We have the power to put them up but we must put them up under the terms and conditions specified by the municipality.

**Mr. Orlikow:** Of course, but it does not make any sense. Because it is not economical, for somebody to come in and put in another system, you have the power to make or break a cable TV system.

**Mr. Scrivener:** Oh no.

**Mr. Martineau:** Sometimes they have their own cable set up.

**Mr. Groos:** For the purpose of clarifying this, am I not right in saying that the signal for cablevision actually does not travel through a Bell Telephone line but through a separate line strung on Bell Telephone poles?

**Mr. de Grandpré:** Not always.

**Mr. Groos:** Or it could be strung on utility poles.

**Mr. de Grandpré:** Or carried on our wires.

**Mr. Martineau:** Or on their own.

**Mr. Scrivener:** Basically, I think Mr. Groos is right, but...

**Mr. de Grandpré:** Either on their own cables or on our own.

**Mr. Scrivener:** For technical clarification, we are talking about the distribution of television signals to residences in a municipality. That is done from a point of origin which the CATV or this operator, whatever his name may be, calls his headend. That is where he picks out of the air all the television programs that you can pick out of the air in that locality. Those signals from his headend are transmitted over coaxial cables specially put up for the purpose which take the signal from his headend to the residence of the subscriber and the subscriber pays him \$20 installation and \$5 a month for that service. Mr. Orlikow is raising a question on that cable.

**Mr. Orlikow:** Mr. Chairman, may I interrupt? This is not the time to go into this in detail although I think we may have to. The only point I was trying to make is that this was certainly not conceived as a function, a service, or an item of profit for the telephone company when the 1948 clarification was put through.

**Mr. de Grandpré:** I do not think I am prepared to agree with the conclusion that has been drawn. There were CATV systems and people were talking about the possibility of using satellites even at that time; they were talking about all sorts of technical developments to transmit intelligence.

**Mr. Orlikow:** Precisely.

**Mr. de Grandpré:** This is why Parliament wanted to give a lot of elbow room to a common carrier so that they would not have to go back to Parliament every six months or year to say that there is a new development in technology and you need an additional clause. I think that this is broad enough to include any type of equipment to transmit intelligence.

**Mr. Orlikow:** That is precisely the point I am making. It is broad enough to include everything up to and including the kitchen sink.

**Mr. Martineau:** But, Mr. Orlikow, Parliament certainly knew what it was doing. It says:

... to provide services and facilities for the transmission of intelligence

In addition, they put in the word "television". Certainly Parliament knew what it was

doing when it put in the word "television", although I agree with you that television was not here.

**Mr. Orlikow:** Was the word "satellite" in there?

**Mr. Martineau:** No, not satellite.

**Mr. Orlikow:** But you are in or will be in the satellite business, will you not?

**Mr. Martineau:** I know, but this is a radio-telephone system and is:

to provide services and facilities for the transmission of intelligence, sound television, pictures, writing or signals.

It did not say how. It could be by wire or by microwave. One would require microwave to hit a satellite and bring it down again. It would be microwave.

**Mr. Orlikow:** This is the question we have to decide. Did Parliament in 1948 and does Parliament in 1967 or 1968 want to give The Bell Telephone Company a blank cheque, because if you want to I suggest that what you are asking for would give you the right to be in the telegraph business, you could compete with the CPR-CNR Telex, you could go into the radio business, you could go into the television business, you could go into the teleprinter business, you could be in the newspaper business...

**Mr. Martineau:** We can now, but we do not want to.

**Mr. Orlikow:** The point I am trying to make and, I think, one of the things we have to bring out in this questioning is can you, and if you can does Parliament want to give you that right? I for one do not want it and I certainly intend to bring in an amendment which will restrict your right.

**Mr. Martineau:** We do not want to go into that.

**Mr. Orlikow:** Well, you say you do not, but you have said many things that you do not want which you now do.

**Mr. Martineau:** But we never did say.

**Mr. de Grandpré:** Mr. Orlikow, may I say, in order to enlighten the Committee on this very question, in 1948 when we appeared before the same committee...

**The Chairman:** Not the same committee.

**Mr. de Grandpré:** Not the same people; but the Railway Committee, the Committee that was going into the bill at the time, said this,



and I am quoting from the transcript of the report of the Committee on page 76:

Thus The Bell Telephone System, in providing instrumentalities for telephone communication, will also be in a position to assist in the economical development of television services both locally and over wide areas. It is only reasonable to assume that, as in the case of radio broadcasting, the telephone industry will be called upon to furnish wire and other facilities for television program transmission as this service develops.

This was the point that was made in 1948 which I think is a definite answer to your question.

**Mr. Orlikow:** All I am suggesting to you is that the extension—not only the Bill as it is now—but the extension for which you are asking will give you the power to do a whole host of things which you now say you have no intention of doing. But, as those of us who have been in Parliament or legislatures have learned through bitter experience, what counts is not what you say you intend to do or what the Minister says the government thinks you intend to do, but the bill which Parliament passes. I am suggesting that you will have the authority once you get this legislation passed to do any and all these things which you say you have the authority to do but you have not done or do not intend to do.

**Mr. de Grandpré:** Well, we made it clear again in 1948 that we did not intend to be broadcasters and we have not become broadcasters. What we said then was, and I am quoting from page 75 now:

While, as already stated, the Company has no intention of engaging itself in radio or television broadcasting, it is clear that the telephone companies have played an important part in the development of radio broadcasting by providing connecting links between studios or pick-up points and broadcast transmitters and between radio stations at widely separated points to permit simultaneous broadcasting of program material over a wide area.

These were the words we used then and I think we have lived to the very letter of this statement. We have not become involved in broadcasting. We have only been involved in the job of providing good service as a common carrier.

**Mr. Orlikow:** But the communications experts—and I am certainly not one—say that the time is not too far away when satellite transmission to private stations, and so on, will be able to be picked up by anybody. If we get to that point you will be in broadcasting whether you like it or not and whether the television companies like it or not.

**Mr. de Grandpré:** I think you have to define what the word means. If you mean that we will be broadcasters in the sense that we can produce the program then the answer is definitely, no.

**Mr. Orlikow:** I did not say that.

**Mr. de Grandpré:** We do not want to have anything to do with the contents of the program. If you mean that we are broadcasting in the sense that we are carrying the program produced by another, then I think we are using the word "broadcasting" in a different meaning altogether. We are then common carrier for a broadcaster, which we have been.

**Mr. Orlikow:** You are not common carriers for the million viewers that may be in the city of Toronto at the present time but you may be at some time in the future and when you are, you may inadvertently affect the whole television industry as it now exists. Now, that may or may not be a good thing. I do not know. All I am saying is that you are asking for powers which will affect not only your business but which could affect a whole host of businesses about which we do not even know.

**Mr. Martineau:** Well, sir, we are handling services now. Let us suppose that you are in a certain district and your reception is not good and you do not have a cable. You have a telephone and that telephone wire is used to give you a good reception on your television set. Otherwise, you would have to pay for a long wire to your house. This is a great advantage.

**Mr. Orlikow:** Nobody is suggesting that you should not be using the most modern methods and that the public does not want them as cheaply and as efficiently as possible. The question is—and we will be discussing it in many aspects—that organizations as varied as private companies which compete with you to the Canadian Conference of Mayors and Municipalities have suggested again and again to us and to the Board of Trans-



port Commissioners that the powers you now have are far too wide, and now you come and ask for a vast extension of powers. That is the point which bothers some of us.

**Mr. Martineau:** If you look at what we have and what we ask for and if you look at the words, they are practically the same words.

**Mr. Orlikow:** Surely you are not advancing that in a serious way because if they are practically the same thing you would not be here. You would be using the power you have. If you are here it is because you want something more than you have.

**Mr. Martineau:** That sounds very logical. But if you look at our powers of 1880 they are wider than anything and yet we came in 1948, because 1948 was not 1880. We have to have wording which is in accordance with the time we are living in.

**Mr. Orlikow:** May I ask you a question?

**Mr. Martineau:** Of course.

**Mr. Orlikow:** Can you give me one example when you wanted to do something from extending your service to increasing your rates where the Board of Transport Commissioners ever said "No" to you? In other words, did anybody ever question you?

**Mr. Vincent:** Yes, yes; they have said no.

**Mr. Orlikow:** When?

**Mr. Vincent:** Well, in certain increases. I forget the year, but not only have they had said "no", but they have set rates. They said, "No, we do not like this, it is going to be this way".

**Mr. Orlikow:** Well, I suggest to you, Mr. Vincent, that if we go over the record—and I think the Canadian Conference of Mayors and Municipalities have convinced me anyway...

**The Chairman:** They will be here, Mr. Orlikow.

**Mr. Orlikow:** ... that it has all been retroactive. I would like to ask just two more questions arising out of earlier questions. You said that the reason you have to control or wholly own a company like Northern is because this is the way you can get precisely what you want in the way of equipment and see that it is up to standard, and so on. I wonder why this is true of the telephone industry. In the auto industry—and after all General Motors and Ford are pretty big companies—there are a whole host of independ-

ent parts manufacturers in Canada and the United States. It does not seem to inhibit the power of the big three or the big four to get the kind of parts, the kind of auto they want. They do the research, they make the specifications, and the parts companies, which want to get a part of this very lucrative market, produce what the auto companies want. Now, why do you have to own Northern Electric and all these companies?

**Mr. Vincent:** I do not think you can compare the two for two reasons. One is, of course, that I think the complexity of the telephone circuit is a far bigger problem than the automobile business. Another is how frequently they change the models of the cars and this is a question of inventories. You can renew that in a relatively short period of time—every year. That is not the case with the telephone business.

I thought I had touched on this area, but, what you put into the plan today has to fit in with what you have put in during the last forty years. It has to assure good compatibility across the whole network, and what you put in today has to fit in with what you are going to do in the next few years.

**Mr. Orlikow:** May I ask one more question, Mr. Chairman? You mentioned earlier that your rates and your profits and so on come under the scrutiny of the Board of Transport Commissioners and this Board regulates, sets the rates and so on. Some of us may question how effectively they do it. For instance, who regulates the profits of your subsidiary, Northern Electric? After all, it is not a public utility. Who decides whether the prices you are paying Northern for the equipment you purchase is a fair price, whether it gives them a fair profit or an exorbitant profit, and so on.

**Mr. Vincent:** The Board has spent a fair amount of time examining this matter. They have looked not only at the figures produced by the companies but at figures produced by outside auditors. The one thing the Board always wanted to be very sure of was that Northern was not subsidized, as some people have feared, by telephone customers. They always wanted to see that the rate of return of Northern was higher than the over-all rate of return of Bell. For instance, last year the rate of return of Northern was around eight something.

**Mr. Orlikow:** The rate of return on what?

**Mr. Vincent:** On the total capital compared to ours which is 6.6.

**Mr. Orlikow:** The rate of return on what?

**Mr. Vincent:** The rate of return on the total capital investment.

**The Chairman:** Would Northern be prepared to come before this Committee and be questioned during the hearings on this bill, Mr. Vincent?

**Mr. Vincent:** Yes.

**The Chairman:** Fine; we will send them a letter.

**Mr. Deachman:** Mr. Chairman, I certainly do not hold the narrow view expressed by Mr. Orlikow that something should be done to restrict a company which is obviously becoming more and more Canadian in its equity holdings and which is expanding by every means possible to make us better able to communicate with each other. It seems to me that both these objectives are very desirable for Canadians. I would want to commend The Bell Telephone rather than find ways of restricting it. I think our duty as Parliamentarians is to see that their rates—

**The Chairman:** Do you have a question Mr. Deachman?

**Mr. Deachman:** I am coming to the question.

**The Chairman:** Would you ask it now please?

**Mr. Deachman:** Well I listened to a great many of Mr. Orlikow's rhetorical questions.

**The Chairman:** Please let the Chair decide. They were questions.

**Mr. Deachman:** I am merely prefacing my question with a remark or two.

**The Chairman:** I think you should get to the questions first, Mr. Deachman.

**Mr. Deachman:** My questions will evolve from the subject of competition.

**The Chairman:** Would you ask your questions, please?

**Mr. Deachman:** I am going to do that, sir.

**An hon. Member:** If he leaves there will not be a quorum.

**Mr. Deachman:** Yes, if I leave there will not be a quorum.

**The Chairman:** Your time is getting along and I will pass to someone else if you do not

get to your questions, Mr. Deachman. We are not in a kindergarten class right now.

**Mr. Deachman:** Mr. Chairman, I am coming to the question although I think you are cutting me off rather abruptly after the lectures and editorials we have had from Mr. Orlikow over the last twenty minutes.

**The Chairman:** Unless you are prepared to ask your questions, Mr. Deachman, we will move on to someone else.

**Mr. Deachman:** I am proposing to ask my questions now. Mr. Vincent, is it not correct that the Canadian National and Canadian Pacific are joined together in a telecommunications company?

**Mr. Vincent:** I do not know if it is a company but it is an association. I am not sure it has a legal entity.

**Mr. Lester:** As I understand it, there is no legal entity, Mr. Deachman, but they have a working agreement, as it were, in which they jointly serve the existing market.

**Mr. Deachman:** Are they competitors of yours in certain respects?

**Mr. Vincent:** Yes.

**Mr. Deachman:** I want to see if I can map out the areas in which we find that association—if that is the proper word to use—in competition with you. Let us begin at one end of the business. Are they in the telephone business in any way?

**Mr. Lester:** They are in the telephone business, but they are not in competition with us. In certain small areas of Canada they are the only purveyor of telephone service. They are the furnisher of telephone service in parts of the Yukon and in parts of Newfoundland, but they do not compete with us in the areas we service.

**Mr. Deachman:** However, they are operators of a telephone service, they are established in that field and they could expand, if necessary.

**Mr. Lester:** Yes, within the territories concerned. This is quite a small number of telephones. I suspect they have in the order of 30,000 to 50,000 telephones operating.

**Mr. Deachman:** Are they in the teletype business?

**Mr. Lester:** Very definitely. Of course they have been in the message telegraph business for many years.



**Mr. Deachman:** Does that business compete with you?

**Mr. Lester:** Not the message telegraph business. However, their Telex does compete with T.W.X. These are competitive services.

**Mr. Deachman:** These are parallel and competitive services?

**Mr. Lester:** They are competitive services, yes.

**Mr. Deachman:** Are they competitive in the transmission of photos or images?

**Mr. Lester:** Yes. They are competitive in many areas where we both furnish private line services, as we call it, for rent between individuals as opposed to a network so that anybody could call.

**Mr. Deachman:** Are they carrying TV messages in competition with you?

**Mr. Lester:** Yes, in certain areas they have the CBC contract.

**Mr. Deachman:** Do they carry news wire services in competition with you?

**Mr. Lester:** That is right. They are all private line services. They compete to supply many services other than what we might call the telephone network and anything beyond that.

**The Chairman:** But that is a private contract between the common carrier and the person for whom they are providing the service.

**Mr. Lester:** This is correct, sir.

**Mr. Deachman:** But in this capacity they are not merely providing internal services within the Canadian National and Canadian Pacific companies but are actually entering into contracts with outsiders in this field...

**Mr. Lester:** Yes.

**Mr. Deachman:** ... for such services and are in competition with you?

**Mr. Lester:** That is right.

**Mr. Deachman:** Are they competing with you in the transmission of all kinds of tape for computer purposes, printing and so on?

**Mr. Lester:** Yes.

**Mr. Deachman:** All forms of print out machinery?

**Mr. Lester:** This is right.

**Mr. Deachman:** They compete with you in that field?

**Mr. Lester:** That is right.

**The Chairman:** Are you trying to establish that the Bell has competition today?

**Mr. Deachman:** I am trying to establish first of all that there are two companies paralleling each other and competing with each other in many fields of service in communications in Canada and that in these fields anyway we are certainly not looking at a monopoly.

You will be overjoyed to learn, Mr. Chairman, that I am coming to some other questions I want to ask in this regard.

**The Chairman:** I was wondering what they had to do with the Bill. That is why I asked.

**Mr. Deachman:** There have been many questions asked this morning which were not necessarily directed exactly to the Bill but were asked to get an understanding of this Company and to ascertain where it rests in the community. I humbly submit that my questions are valid.

I want to ask about the equipment which CN-CP uses for its communications services. Are they in the manufacture of equipment?

**Mr. Lester:** Not to my knowledge.

**Mr. Deachman:** Where do they obtain their equipment?

**Mr. Lester:** Actually they obtain quite a bit of it from Northern Electric but they do buy from other Canadian and British manufacturers.

**Mr. Deachman:** Do you feel they have been at some considerable disadvantage because they are not themselves manufacturers of equipment?

**Mr. Lester:** I guess you would have to ask the CN-CP that question.

**Mr. Deachman:** May I put it the other way around. Do you feel that you have a competitive advantage over them because you manufacture equipment and they do not?

**Mr. Lester:** I think the advantage would be the point that Mr. Vincent made earlier, that we have perhaps more immediate access to research to see what is coming next. This is an advantage.

**Mr. Deachman:** But it is evidently possible for a communications company or association to get into the business and provide stiff competition to you 'and in fact take business from you without getting into the ownership and production of equipment themselves.



**Mr. Lester:** As you gentlemen know, the CN-CP some years ago erected a microwave system right across Canada. This system was manufactured by RCA, as a matter of fact, and it is giving excellent service for the circuits they have. Their circuits are primarily government, railway and other private line facilities, in which they are competing with us.

**Mr. Deachman:** The other point I want to raise in respect of this deals with your submission that the percentage of Canadian equity in Bell Telephone has increased while the equity of AT & T has decreased. Have you found it advantageous to gradually withdraw from your relationships with AT & T which is the largest manufacturer and experimenter in the field of telecommunications?

**Mr. Vincent:** When you say "withdraw", from what? Are you talking about the financial area or of service contracts with regard to research? What do you mean by "withdraw"? From which areas?

**Mr. Deachman:** Is it not correct that you have been slowly parting financial company with AT & T?

**Mr. Vincent:** Oh yes. This is because of the ability over the years to finance in Canada and we are very happy with it. However, this is only the ownership part, whether it is 38 per cent or 2 per cent. Fifty years ago we were very happy to get financial support. The main advantage of our association with them is the service contract, not the financial part. You said "withdraw", we did withdraw in the sense that we do not need their financial support. We are still benefitting a great deal from the service contract, as we did before.

**Mr. Deachman:** While it is true that other telecommunications companies can compete vigorously with you without getting into the manufacturing business and while it is true that you can withdraw financially from your previous connections with the great AT & T, you argue that it is extremely desirable that you maintain a financial hold and an interest in a telephone equipment-producing company. I just wondered how you find all these particular circumstances compatible?

**Mr. Vincent:** I do not think the need for a manufacturing company is related to the other service contracts we have or the financial interest we did have years ago. I think the need for a manufacturing arm here is something quite different from what you are

talking about. This has nothing to do with the financial relationship between AT & T and Bell. The manufacturing arm allows us to enjoy the quality and the cost, and we are able to get something when we need it.

**Mr. Martineau:** I think this is a separate question.

**The Chairman:** You referred to fast delivery. Could not other independent wire and cable companies provide you with fast service if you had contracts with them?

**Mr. Martineau:** They could. They might and they might not. They might have other clients and other great clients, for instance PTT, and serve them first. One never knows. Look at what takes place in England. There is as much delay in delivery of equipment that if you do not have a telephone it takes months or sometimes years. In Canada we are able to do it within days, and we are always sure that equipment will come in.

**Mr. Deachman:** Mr. Chairman, perhaps if a witness were called from CN-CP Telecommunications, we might have the opportunity of asking him what delays they have suffered in the delivery of equipment and what the penalties are which are imposed upon a company which has had to operate in this field in competition with Bell Telephone without the opportunity of having the ownership of the manufacturing company to assist them. We might get a little closer to an understanding of Clause 8. Mr. Chairman, that is the end of my questioning.

**The Chairman:** The Steering Committee will take that into consideration.

**Mr. Scrivener:** Mr. Chairman, I am sure they could point to some incident where the equipment under question is being delivered by Northern, the situation is competitive, and they have some concern whether Bell is not getting better service from Northern than CN-CP. This is the very sort of thing we keep in touch with. They do have that problem. Those problems do come up. However, they can say that.

**The Chairman:** Do you have a supplementary, Mr. Schreyer?

**Mr. Schreyer:** I have one if Mr. Deachman will allow me.

**Mr. Deachman:** I am all finished now, Mr. Chairman.

**Mr. Schreyer:** In reply to Mr. Deachman's last question, the witnesses have given us to

understand that there are certain great advantages and even a necessity for Bell Telephone having an interlocking corporate relationship with a communication equipment manufacturing company in Canada like Northern. Is it not a fact that only recently in the United States the American counterpart AT & T, has been required to divest itself of just such an interlocking relationship with an equipment manufacturing firm?

**Mr. Vincent:** They still own 100 per cent of Western Electric.

**Mr. Schreyer:** Then do you reject the statement contained in a submission by one of the interested parties—I believe it was Industrial Wire and Cable—that in the late 1950's by virtue of anti-trust action taken by the U.S. Department of Justice that AT & T had to agree to refrain in the future from engaging directly or indirectly through a subsidiary?

**Mr. Vincent:** No. I think you are touching on another question.

**Mr. de Grandpré:** I think you are referring to the consent decree that was issued under the anti-trust act of the time which now prohibits Western Electric from selling equipment to others than the AT & T system. But the interlocking arrangement between AT & T and Western Electric still exists, except that Western Electric does not sell to others. Let us call it independence, if you wish.

**Mr. Schreyer:** So then you are stating to the best of your knowledge that AT & T, through its subsidiary Western Electric, is still engaging indirectly in the manufacturing of communications?

**Mr. de Grandpré:** Western Electric still manufactures the equipment for the AT & T operation company.

**Mr. Schreyer:** Yes.

**Mr. de Grandpré:** And it is wholly owned by AT & T.

**Mr. Schreyer:** That is what I was getting at. Thank you.

**Mr. de Grandpré:** But Western Electric is not selling to companies which are not under the umbrella of AT & T.

**The Chairman:** Mr. Sherman, you may proceed.

**Mr. Sherman:** Mr. President, on page 33 of our brief you point out that under the Company's charter the amount of capital authorized in terms of par value amounts to \$1

billion distributed on the basis of 40 million shares at a par value of \$25 per share. In other words the total figure of authorized common shares is 40 million. On page 37, referring to the shareholders' equity at the end of December 1966, you refer to the par value of 34,075,000 shares outstanding at that date. You point out in the subsequent paragraph:

The ownership of the Company is therefore represented by the 34,075,000 shares outstanding at December 31st, 1966.

Where are the other 5,925,000 shares?

**Mr. de Grandpré:** Still in the treasury.

**Mr. Sherman:** They have not been issued.

**Mr. de Grandpré:** They have not been issued. Of course the figures are not brought up to date. I suppose as of this date it would be somewhat over 35 million. The actual figure is 34.6 million today.

**Mr. Sherman:** Have you had, sir, up to this point, 100 per cent participation from right holders when you have issued common shares?

**Mr. de Grandpré:** We never get 100 per cent of the shareholders taking advantage of the right. Is this the question you were asking?

**Mr. Sherman:** Well, it is one question I was asking. Really the basic question is: what percentage of participation do you get? What degree of participation do you get?

**Mr. Scrivener:** Between 98 and 99 per cent of the rights are exercised and the shares taken up in an issue.

**Mr. Sherman:** In other words it is very close to 100 per cent.

**Mr. Scrivener:** Yes, there are no other equity issues that have been—

**Mr. de Grandpré:** I do not think this is the meaning of the question. I am sorry, Mr. Scrivener, but I do not think you are on the same wave-length, to use a communications term. In an issue about 99 per cent of the rights will be exercised but they will not necessarily be exercised by the existing shareholders. That is why I say that I cannot remember the exact percentage of the existing shareholders who took advantage of the rights. Over 60 per cent of the rights are used by the shareholders who were then shareholders of the Company at the time of the rights issue. The balance of the rights



were sold on the market and permitted outsiders to get in or permitted present shareholders to add on to their existing rights. The end result is that over 90 per cent or about 90 per cent of the rights were exercised. Does that answer your question?

**Mr. Sherman:** Yes, it does. I appreciate the information. Whether existing shareholders took up the rights or not is really not germane to the question. The point is that the Company has never had any difficulty in raising capital in this manner, by issuing rights on and to new shares. You still have approximately six million, the rights to which have not been issued yet, and which, at a par value of \$25 per share amounts to approximately one-quarter of a billion dollars. What is the price at which they usually are issued?

**Mr. de Grandpré:** About 80 per cent of the market at the time.

**Mr. Vincent:** About 80 per cent of the market at the time.

**Mr. Sherman:** About 80 per cent of the market price, at the time.

**Mr. Vincent:** You say that the issues have been successful, and this is probably true but there have been times when we would like to have had a stock issue but we had to do with debt money because the market was not right at the time. We would try, of course, as much as we could to time it to a favourable market.

**Mr. Sherman:** I may be repeating the question that I just raised a moment ago when I asked how you determine the price of the shares purchased from the rights. What formula is used? Is it a percentage of something or other?

**Mr. Vincent:** It is a percentage of the market price.

**Mr. de Grandpré:** It is not a fixed percentage. The market is evaluated by financial experts and they say: Well, under present conditions, taking into consideration the movement of the market; taking into consideration the availability of money and the size of the issue; in order to make this issue stick you should price your stock at X dollars which represents a percentage of the then market price. This then is an evaluation of how much the market can absorb at that moment at a given price.

**Mr. Vincent:** What Mr. de Grandpré says is true but in practice it has turned out

somewhere between 78 and 80 per cent of the market price at that time.

**Mr. Sherman:** Could you tell me at what price the shares were sold on the last issue of rights?

**Mr. Vincent:** Thirty-eight.

**Mr. de Grandpré:** It was about 82 per cent.

**Mr. Sherman:** On another level, sir, following a line of questioning that Mr. Deachman pursued, could you give the Committee an estimate of the amount of your business that you would say is business conducted in competition with another entrepreneur? For example, I am thinking of Telex services and that type of operation. To what extent are you involved in competition?

**Mr. Vincent:** This is difficult to estimate. We have looked at some of these figures. You recall some of the figures we were looking at.

**Mr. Lester:** I think it would be very much a guess, sir. My guess perhaps would be somewhere in the region of 10 per cent but I could be out by several percentage points.

**Mr. Vincent:** I had in mind 15 per cent but it is in that kind of range. It is not 50 per cent.

**The Chairman:** Only 10 to 15 cent of your business is in competition. Is that the estimate?

**Mr. Lester:** We are talking about competition between ourselves and the railway companies, who are our main competitors.

**The Chairman:** If I may expand on that, what about competition other than CN-CP? Would that 10 or 15 per cent still include all your competition?

**Mr. Scrivener:** There is no way of evaluating, Mr. Chairman. For example, there are a lot of people who sell private intercommunicating systems. You can purchase that kind of thing for your business. People purchase them and as a result they may not purchase a system that is built into the telephone system.

**Mr. Vincent:** Mobile is another.

**Mr. Scrivener:** I would think that we have no idea how much of that there is. There is no way of really assessing how much electronics or communications equipment other people sell which results in a loss of service for us. This is a situation almost parallel with that of calling long distance or sending a letter. It is very hard to assess. It is difficult



to determine where this competition restrains the use of telephone service and what dollar value it represents of our total volume of business.

**Mr. Martineau:** Just to illustrate, in my own office, I am old-fashioned and I like to use the telephone to speak to my secretary or to the partners. But all the others and there must be forty others, all use an intercommunicating system which does not come from you or from Northern. I think it comes from Telefunken.

**The Chairman:** What you are really saying is that the 10 to 15 per cent estimated figure is only the competition from the railways.

**Mr. Sherman:** That was not my question, Mr. Chairman. I cited Telex simply as an example of a field in which Bell would be involved in competition. There are apparently others. Perhaps it is impossible to get an answer to my question. It may be an impossible question. But taking all in all the terms of your whole business, your whole operation, your whole enterprise, what extent of that business, that operation, finds you pitted in head-to-head competition with somebody? And to what extent do you feel you enjoy a privileged position where you do not face head-to-head competition? Your first answer was that you felt you were in competition in an area embracing about 10 to 15 per cent of your operations. I gather that estimate has now been revised.

**The Chairman:** In competition with the railways only.

**Mr. Sherman:** You are now revising that answer. Could you answer the question as I intended it, in terms of your over-all operations?

**The Chairman:** They do not seem to know it exactly.

**Mr. de Grandpré:** We are in competition with the telegraph systems directly in other areas. We do not know whether the subscriber will use the telephone instead of a telegram. This is an area in which it is impossible to get figures. We do not know why a telegram is used instead of the telephone. So it is almost impossible to answer your question with any degree of certainty.

**Mr. Sherman:** But you could say with some degree of assurance that your basic business took such and such a form; that your biggest capital investment, your biggest distribution of manpower and energy, was

devoted to a certain function. I do not know what that function is. Is it your trans-Canada telephone service? If it is, it would be reasonable to assume that in that whole area, which comprises certainly a substantial portion of your livelihood, you really are not in competition with anybody.

**Mr. Scrivener:** Mr. Chairman, I would say that the one place where the telephone company is not in competition is in the provision of basic local telephone service—in other words, the telephone in your home. From our experience, since 80 per cent of our people have individual lines in their homes, and sixty per cent of the telephones are black, a black telephone on an individual line in a home is a basic service.

**The Chairman:** But what percentage of your total business is this?

**Mr. Scrivener:** That part of the business, for residence and for business—keeping it very simple for business, just one telephone per business—would approximate, in ball park figures, about 50 per cent of the business. The rest of our business, in my opinion, in one way or another is open to solicitation from alternate opportunities. This is about it. If you want to put the basic service on one side, then in one way or another the rest is open to solicitation; there is a substitute.

**Mr. Vincent:** It might take systems, you know, that are owned, not supplied by another provider of a service such as CN or CP. Pipeline companies own a great deal of their own lines right across the country for communications that are required between competitors' clients and their own. A great number of them provide their own. Some large companies surely do.

**Mr. Martineau:** When the question arises whether you send a telegram or make a telephone call to a distant place, you use the cheapest way. If you can save money by sending a telegram, then you send a telegram.

**Mr. Sherman:** Is it not correct that in your business your position and your liquidity are such that your shareholders and Canadian investors in general have a pretty substantial confidence in Bell Telephone stock?

**Mr. Scrivener:** I think it is based on the fact that the confidence arises from the assumption that if the service is good enough and if the price is right its use will grow.

**Mr. Sherman:** If I may have your indulgence, gentlemen and Mr. Chairman, I would like to return to the original point that I was discussing with you a few moments ago, and to ask whether you have ever yet put forth rights to stock that have not been taken up? It does not matter by whom they have been taken up.

**Mr. Scrivener:** That is different than an issue—I mean on a stock issue where one or two per cent were not subscribed, yes. That is the amount that was not taken up and was never exercised. Someone gave up the value of that right for some mysterious reason and it went down the drain—that is, one or two per cent of the average issue.

**Mr. Sherman:** Those occasions on which your common shares have not been purchased when rights have been issued have been minimal indeed, really inconsequential from the point of view of your financial and fiscal picture.

**Mr. Scrivener:** Yes, true.

**Mr. Sherman:** It leaves me wondering why it is necessary to obtain a clearer right now to issue preferred stock. Why is that necessary?

**Mr. de Grandpré:** It is just a question of pricing. If it is a question of pricing, then it becomes a question of cost of money. I am sure, to take an example, that if tomorrow we were to put on the market shares at \$26 or \$27, they would sell. We would get 99.8 per cent participation, but that does not mean that it is a success; it simply means that we have underpriced the stock. The cost of issuing additional securities is very high indeed and, therefore, this eventually will reflect itself in the cost to the subscriber. The result of an issue is a combination of factors; it is a combination of the confidence of the investor, proper pricing, and proper appreciation of the market.

**Mr. Scrivener:** In today's atmosphere, Mr. Sherman, to be realistic, right now in a very sick stock market the Bell stock is declining with everything else. If we wanted to make a stock issue, say to raise \$75 million to \$100 million which is about the size of our recent stock issues, we would have to underprice so much in relation to a sick and declining market that it makes the price of that equity terribly high. Therefore you avoid doing it if you possibly have the alternatives. This gets you into the alternatives of bonds and the debt ratio. But perhaps there could be a

situation where a preferred issue might have a real appeal to a certain type of investor; the cost of that money would be substantially less than attempting to deal in equity. What is really involved here is to have this room to manoeuvre.

**Mr. Sherman:** So you see this as an exigency which is forced upon you; or at least you are persuaded to move in that direction as a consequence of the economic situation in Canada today.

**Mr. Scrivener:** During our 88 years of operation I think we have had the simplest capital structure of any large company you will find anywhere. First mortgage bonds and common stock is all we have ever issued, and I see no reason to depart from that formula so long as we can make it work. If, however, we could not make it work, if we cannot get the capital we need to expand, the obvious alternative is to stop growing, and then when somebody applies for a telephone they do not get it and when they want to make a call they cannot make it. These are not desirable alternatives. This is the reason for the optimum financial flexibility, based on the best credit rating that can possibly be established in the line of investments.

**Mr. Sherman:** This is a hypothetical question and perhaps you cannot answer it. If the market were as healthy today as it was in 1957, would it be reasonable to assume that you would not have asked for this new avenue of financing.

**Mr. Vincent:** That is a very difficult question. You are trying to guess what the market is going to be in the next ten years.

**Mr. Sherman:** But you did not ask for this in 1957. The market was healthy then.

**Mr. Scrivener:** I would think that our experience over the past ten years, the difficulties at times of getting the market right, and so on, has led us to consider, since in certain quarters there is an expressed desire for this type of security, that if we did have this flexibility it would mean that we could over the years get our money at the lowest price. I think that in the past ten years there have been a number of cases where we wondered if really we would not have been better off if we had been in a position to make a preferred offer. We never did; we found some other alternative. Perhaps in the future we will never make a preferred offer, but the market size of our



issues, demands for capital, not only in the Canadian market but in the world market, is such that I think financing in the future is not going to be easy.

**Mr. Sherman:** Mr. Chairman, on a different plane, I would like to ask just two more questions with respect to your subsidiary, Northern Electric.

**The Chairman:** Mr. Sherman, I am just wondering if this would be a good time to adjourn until after the question period, at which time you could commence with a different line of questioning. Our intention is to question the witnesses from Bell and then call others who have expressed their intention to present briefs, and then after we are through with them and we have heard the other side of the story, to have the Bell come back again for questioning in depth, and to give them the opportunity to answer whatever criticism has been raised. This will provide a further opportunity for members to put questions, after hearing other briefs. We do have a sitting this afternoon after question period, and we will continue then.

#### AFTERNOON SITTING

**Mr. Chairman:** Gentlemen, we now have a quorum. Mr. Sherman, will you continue.

**Mr. Sherman:** I will now change my line of questioning. There were two or three questions that I had in mind at the time we adjourned for the noon lunch hour which have to do mainly with research and your subsidiaries.

With reference to the proposed section 8 in the new Bill in your brief you stress the need for research and the Company's interest in promoting research. On page 51 of the original brief submitted with respect to Bill C-239, which is not Bill C-104, you state that this proposed section 8 of the Bill would broaden the Company's right to invest in other companies having objects in whole or in part similar to those of Bell Telephone. I would like to ask, sir, whether this reflects an interest in developing other research arms or using some of the new capital that is going to be available to you to develop a specific research operation of your own within Bell which would not involve outside companies, or whether this statement envisages subsequent takeovers of companies that could be utilized for research purposes.

**Mr. Vincent:** I think the first thing I should say in reply to this is that we are not saying that we want to do this next year or the year after. We do not know yet whether or not we want to do it but we would like to have the power to do it. Perhaps I might describe it broadly this way. There might be advantages at some point to have a separate research organization rather than have it under the manufacturing arm or under Northern Electric. We are thinking of matters of this kind. It might be under Bell or it might be that half the capital would come from Northern Electric and half from Bell. Perhaps this is a little academic but the point is that there might be advantages to having the two organizations involved in this. It might permit an orientation which is more in the area of basic research as against research in the field of development which is primarily of interest to the manufacturers. In other words, it might be oriented more to systems than to hardware, if you follow my reasoning. That is one thing.

It might also render more services to companies other than Bell. While it does that now, mostly through Bell or in direct sales to the others, it could be that other telephone companies might feel that they are a little freer to get those kinds of both basic and development types of research than if it were directly under the manufacturer. Also, there are not too many large research organizations in the world in the field of communications and it is nice to be able to exchange the type of research work that is being done; this might be more easily done if it is a separate organization rather than one under the manufacturer.

I am just indicating the kind of things that we have in mind. I am not saying we are going to do this but we are wondering whether at some point in time it should be considered. How long has this existed, eight or ten years?

**Mr. Lesier:** Since 1958.

**Mr. Vincent:** It started relatively small and it is getting to a size where, if there is a budget of \$35 million to \$40 million, it is becoming more important. We are thinking of how we could make better use of the centre. Do you want to add to what I have said, Mr. Lester?

**Mr. Lester:** I think you have covered most of the factors, Mr. Vincent. I think that I would emphasize the liaison between labora-



tories around the world, particularly in basic communications research. Generally speaking, this is not carried on by manufacturing laboratories in other countries; it is carried on largely under government auspices in other places and under private auspices such as the Bell Laboratories in the United States, and I do think, like Mr. Vincent, that there would be a freer interchange at the technical and scientific level. It would result in being sort of freed from the manufacturers' connotation.

One other point which is a particular one to us is that as the major user of Northern Electric's equipment or of anybody's equipment we feel that we must have assurance of the quality of what is going into our plants. This is over and above the quality control that every good manufacturer exerts. From the user's standpoint we have quite a substantial organization in Bell which now looks at Northern or anybody else's product to make sure that it is of the quality that we need to put into Bell Telephone plants. Our thinking would be that a separate organization might well be beneficial for this sort of thing. In other words, it would be a little bit freer than correcting your own copy book, as it were, because it would be independent of both the operating telephone company and the manufacturer. In this way I think we would get perhaps a better and certainly a more logical approach to quality assurance.

**Mr. Sherman:** I appreciate your answer and yours, Mr. Vincent, and I think it is important that you make the answer as full as you have done even though it is necessarily speculative to a certain extent. As you have said, you are not saying you are going to do these things. I think it is important that you suggest that you are perhaps amenable to the idea of doing these things because there is some concern, as no doubt you appreciate all too well, over the size of companies such as Bell, over the degree to which they have come to exercise a pretty oppressive influence on business and the economy when they grow too large. Particularly in the light of your statement on page 51 of your brief, I think your answer is important. That statement bothered me a little, particularly where you say:

This proposed section...  
That is, proposed section 8 of the Bill.

...would broaden the Company's right to invest in other companies having objects in whole or in part similar to those of Bell.

That philosophy can be given a pretty *carte blanche* interpretation. I would suggest to you that as one free enterpriser to another that it no doubt is going to be met with suspicion in some circles. It is an aspect of your position that is going to require some explanation and defence, I am sure.

Finally, could you tell me to what extent Northern Electric is able to fill your orders for equipment and research?

**Mr. Vincent:** In research?

**Mr. Sherman:** Yes.

**Mr. Vincent:** Mind you, as big as it is in Canada it is still a small part of what we require. I do not think that we will ever—maybe ever is a long time—have the equivalent of Bell Lab in this country. It would be silly to attempt it. We just could not afford it. However, we do get a lot of research done through the service contract with AT & T. In fact, that is the main advantage of the contract with AT & T, and for what we pay for this contract I must say we are getting quite a bit more than we are getting directly through Northern. Northern research is particularly oriented in getting the kind of research that they at Bell Lab sometimes are not too interested in because they do not have that kind of problem in their country and we are concentrating on our own situations here. For example, we had a need at one time for a small crossbar office and they do not have that type of small office. They were not too interested in that and we had to develop some of these things. So Bell Lab through its service contract, avoids duplicating what is done by Northern.

You asked what percentage of the total research knowledge we need we get from Northern.

**Mr. Sherman:** Yes.

**Mr. Vincent:** You are not talking dollars, are you?

**Mr. Sherman:** No.

**Mr. Vincent:** We can come back to that, if you wish. You want to know, of the total know-how we need, the percentage we get from Northern.

**Mr. Sherman:** I am referring to expertise, yes.

**Mr. Vincent:** Mr. Lester could better answer that question, but I would venture to say 10 to 15 per cent.

**Mr. Lester:** I think that it might be a bit more than that, Mr. Vincent. I would put it in the 25 per cent range. Just to emphasize what Mr. Vincent has mentioned, Bell Laboratories' budget for civilian work—they do a lot of military work, of course, too—showed actual expenditures in 1966 of a shade over \$200 million. This was the research and development work required to keep the Bell system in the United States moving ahead, so to speak.

The range of services required in Bell of Canada is just as wide as it is in Michigan, California, or New York. Therefore, we need access to the same breadth. Obviously we cannot have Northern cover all of that breadth and we try to concentrate on the particular things which are either not coming out of Bell Labs fast enough or they are peculiar to Canada. The small crossbar office, for example, was successfully developed in Northern and they have sold something over 400 of them here and elsewhere. The development of a new approach to mainline microwave, a selective thing, has been developed in Northern. We have an inter-company committee that concentrates on those things that Northern can do well. We try to organize it this way.

I would guess that the figure of 20 or 25 per cent is about right. I would think that over the next few years the proportion of what you might call their basic research work would increase and a separate company, as at present, might have some advantage.

**Mr. Sherman:** I have one last question, gentlemen. In the area of straight manufactured equipment, to what extent is Northern Electric able to fill your orders, and if they cannot fill them where do you go to have them filled?

**Mr. Vincent:** I would think that they would pretty well meet all our requirements—a very large percentage anyway. Occasionally there would be some requirements, such as mobile sets for cars or...

**Mr. Sherman:** Can they fill 85 per cent of your orders?

**Mr. Vincent:** ...or there may be a need for a new type of PBX, an automatic private switchboard, which perhaps they have not developed yet, and to fill the gap for a year or two we might buy it, as we did, from Ericsson.

**Mr. Sherman:** Buy it from where, sir?

**Mr. Vincent:** Ericsson.

**Mr. Sherman:** Can Northern Electric fill 85 per cent of your orders?

**Mr. Vincent:** I would say more than that.

**Mr. Lester:** At least 85 per cent. I would expect they could fill 85 to 90 per cent. I would have said 90 per cent. The items that we have gone outside for also has something to do with the research type of thing we are talking about. For example, there are all kinds of microwave systems that have been developed around the world and on this continent and I think Northern have rightly concentrated on the main heavy-route microwave systems. However, we have need for branch routes up to 500 miles and that kind of thing of lighter capacity and we have gone elsewhere. Bear in mind that there is really nobody in Canada who was manufacturing microwave with the exception of RCA, but there are Canadian agencies. We have bought the branch route microwave from these other people. We bought a PBX. We bought quite a number of mobile sets both from Canadian competitors and, to some degree, from British competitors.

**Mr. Sherman:** Thank you.

**Mr. Groos:** Mr. Chairman, although a great number of my points have been covered by Mr. Sherman I would like to fill in a few gaps.

It seems to me that the things that are concerning a number of members of Parliament in respect of this Bill are, first of all, the close connection which you have explained between The Bell Telephone Company and Northern Electric, and this new section, clause 8, which empowers the Company to purchase or otherwise acquire, to hold shares, and so on, in other companies.

I would like to go into that a little bit. Could you describe to me the working arrangements that you have for research and development between Northern Electric, Bell, AT&T and the Bell Laboratories? You have touched on it but I have not the general picture on my own mind.

**Mr. Vincent:** We could carry on with the service contract with AT&T but I think we have covered pretty well what you have asked.



**Mr. Lester:** Perhaps I could sort of put an umbrella over it.

**Mr. Vincent:** I think they would like us to be more specific about the contract.

**Mr. Groos:** I would like a general description.

**Mr. Lester:** First of all, we do hire out a service contract, which is between Bell and the AT&T Company. For one thing, this covers use of all their patents in Canada. It covers access to technical information from Bell Laboratories and also access, which is vitally important too, to all operating information of AT&T, and their 23 operating subsidiaries. This is extremely valuable to us in methodology, in methods of measuring and standards and that kind of thing, right through our base.

Our payment to Bell Laboratories last year, if I remember rightly, is something in the order of \$6.1 million. It is based on 1 per cent of certain revenues that we have. About \$3 million to \$3.5 million of that can be attributed to the Bell Laboratories stuff that comes to us. As I mentioned a few minutes ago, for that we have rights to patents which, of this \$3.5 million, would represent \$2 million in royalties if we did not have such an arrangement. In other words, if we did not have an arrangement of this sort we would have to pay royalties. The rest of it covers the very valuable and continuing contact that we have with Bell Laboratories and with AT&T on the engineering of this extremely complicated system. This system is not just a series of hardware. Because there are 100 million telephones in the United States and eight million in Canada it means that on any one day there are probably seven to eight hundred million telephone calls which all have to be connected. It is the engineering of this whole business that we are talking about.

We get by way of technical literature from the AT&T and Bell Labs all of the output of their laboratories. If we decide that we have to go ahead with certain things in Canada then we must decide whether to purchase technical information. This is detailed design information as opposed to the broad Bell Laboratories stuff from the Western Electric Company, and if Northern has to do this then we have to have Northern go ahead, using the patents and their own knowledge, and develop this particular item to fill the role. In addition, of course, we have Northern Electric laboratories which this year are spending about \$30 million; they have their

particular role to play based on a program set up between the two companies, Bell and Northern. I sit on an administration committee which determines what the program shall be for Northern research. We try to make sure that we have a minimum amount of overlap with Bell Laboratories and, at the same time, a substantial content of basic research because no laboratory can go on anybody else's basic research.

That is about the way this works. The Northern Electric Company, of course, from the product of their own laboratories, can develop completely down to manufactured products or drawings for manufactured products and carry on with the manufacture of that stuff and sell it to Bell or whomsoever else they have as a customer. On the information that comes from Bell Laboratories, as I say, we have to determine whether or not we are going to adopt it. If we decide to adopt it then Northern must develop themselves or buy from Western Electric Company the detailed technical knowledge and drawings and from that set up the Canadianization of this, because there are usually Canadian components rather than U.S. components, and build the hardware. Does that cover your question?

**Mr. Groos:** Yes, it covers it very clearly. I think you mentioned earlier on that we were spending 25 to 30 million dollars on research this year in Canada between Northern Electric and Bell. Is this correct?

**Mr. Lester:** We are really not carrying on research in Bell. That is Northern Electric.

**Mr. Groos:** About how many Canadian scientists would be employed in this program?

**Mr. Lester:** There is currently a total staff of just over 1,600 people in Northern Electric laboratories. These of course are not all scientists. There would be between 400 and 500 senior technical people, scientists and senior engineers, in that group, perhaps another 400 to 500 of what you might call the technical assistant type to help the top scientists group, and the remainder are technicians, clerical people and that kind of thing. It is a substantial group. I had the figure a little while ago. I think between 400 and 500 certainly would be classified as scientific personnel. Of those, just to give you an idea, there would be in the order of 100 in the Ph.D class and most of the others would have their Masters degrees in various forms, physics and so on.



**Mr. Vincent:** You have to appreciate that Bell laboratories is ten times this. If you are trying to evaluate what we get from Bell Labs, they have about 15,000 people and their budget is about \$300 million. I am not talking about capital.

**Mr. Groos:** I was not talking about getting...

**Mr. Vincent:** I know, but when we talk about the value of the contract we have to think of that. When I say "ten times", this is not just bodies and dollars; there is also the amount of expert knowledge involved.

**Mr. Groos:** I was interested in the workings of the arrangement.

You were saying earlier on that when it came to working out the profits of the Bell Telephone Company, which I think you were showing around 6.6 per cent on investment capital, you had to be pretty sure that the profit figure of Northern Electric was greater than this so that you could not be accused of having Bell Telephone Company subsidizing Northern Electric; or put it the other way round—Northern Electric bleeding the telephone users. Do you not think if you exercise these powers you are going to be given in clause 8 that this will complicate the issue? Because you will be faced with the same problem there; in each of these firms that you acquire or hold shares, particularly those you acquire, you are going to be faced with the problem of having to justify the capital expenditures in here and be able to face up to the accusation that Bell Telephone Company...

**Mr. Vincent:** Well, so far it has not been difficult at all with the Board of Transport Commissioners because we have always been able to show that the percentage return on the investment was higher than the percentage return on our own telephone operations and also, the fact that the investment in other companies only represents between eight and nine per cent of the total capital involved. So for this reason, I think, when they changed the base of regulations on percentage return basis, it was easier to pick a percentage return on a total capital having in mind that the percentage there, which was investments, was relatively small—about eight per cent.

However, on the point you are raising, if there should be any fear at any time on the part of the Board of Transport Commissioners or any bodies making representation to

the Board, I think the way to do this for everybody's satisfaction is to have a base of regulation on the net plant investment, rather than the total capital. In other words, the Board could say: You had better leave your investment out of this, and you make your 6.6 or whatever it happens to be on the net plant investment in the telephone business, and then what happens to the rest is up to the shareholders to take their loss or to make a better return on it. In fact, let me point this out, if they used that plant instead of total capital, this would be about what is done almost all over the Continent.

**Mr. Groos:** Have you in mind, in asking for this clause to be included, the sort of takeovers that have taken place in the United States? I notice one touched on earlier on by one of the questioners similar to the Random House, RCA type of connections. Would that have had something to do, in your mind, with facsimile type transmission?

**Mr. Vincent:** Not at all. You know, it is something that really puzzles me; I have had publishers on to me and people in the broadcasting business airing suspicion that we are trying to get in somebody else's business in spite of what we say. The way it looks to me, quite frankly, when they come and talk to me about it, it is the other way around.

A quite prominent publisher in this country came to me the other day and said: "You know, I am a little naive; I do not understand the business world and all this, but do you not think with this satellite thing that the publishing people should be in this somehow? I do not know why, but it is something new up there". So I said: "Tell me this; let us suppose the satellite had not come into the picture yet, and that we needed to extend our network. Either we would put more on the ground cables or we would change the structure of the micro-wave towers and add to the capacity or maybe we would take another route and build another micro-wave system. And, let us say that tomorrow it will be wave guides or laser. Would it occur to you to come here today and say to me: 'Do you not think I should have part of this network? Do you not think I should be in it?' Because if you did I would tell you to buy Telephone shares."

But, he said: "No, to be quite candid with you, it would not." I said: "It is just because this is something quite spectacular; it happens to be in the sky instead of on the earth." He said: "Yes, that is true."

And this catches the imagination of the people. But this satellite thing is just another way to add to the system, but because of that people who are in the publishing fields, broadcasting fields, have an idea that we are trying...

We do not want to be in the newspaper business; we are never going to be in publishing, although we have the powers.

**Mr. Groos:** Perhaps he feels that he is in the communications business himself...

**Mr. Vincent:** That is right, that is right, but we are not in the...

**Mr. Groos:** ...and he can go back and stop talking about telecommunications...

**Mr. Vincent:** We will continue to provide the facilities that we are providing today, it may be with another kind of action. Now, I know that the fear was expressed this morning and they say: "You have never done this, you have never done that; you say you are not going to do that, but you have this kind of power." I suppose you still have to consider the picture since 1880. We have had the power since 1880 to be in the faucet business in the belt strip business, in the battleship business; in fact, all the damn things that you want to think of and dream of, but we have not been.

**Mr. Groos:** Really?

**The Chairman:** Do you have a supplementary question, Mr. Andras?

**Mr. Andras:** I wonder, if I am not interrupting your chain of thought Mr. Groos, if I could ask a supplementary question arising from the answer to that second last question.

Do I understand what you are saying is that the regulation of net income, net profit...

**Mr. Vincent:** No, that is plant.

**Mr. Andras:** I am coming to that—of your net profit, should be related to the return on net plant investment as opposed to total capital investment? That is what you said a minute ago.

**Mr. Vincent:** Yes.

**Mr. Andras:** Well, would not that permit you, particularly under the extension of the powers given you under clause 8—to divert, as it were, your profit centre from Bell's operation to one of the associated or subsidiary companies by all sorts of techniques that are quite legitimate perhaps—inter company charges and that sort of thing—to keep your Bell Telephone net within the limit permitted

as applied to net plant investment, as to that total?

If it is applied to total investment, then it does not matter where you invested and the return still have to stay within a certain total confine. But if you fragment this thing and get to your objective of the regulation applying only to net plant investment, then you have a whole lot of money invested in diverse other subordinate or associated companies and your profit can go way up in total and still be within the regulation which opens an avenue through, as I say, these inter-company charges that the telephone users might in the end be paying.

**Mr. Vincent:** I am not talking of even a separate company, you know. You are talking about inter-company charges; that box of tricks. Frankly, I do now know what you are talking about. What I am saying is that you do not need to have a separate company for investments to do that. You could, but all I am saying is that they would regulate the thing on that plank. The investments are still shown separately in our annual report and they would only say, you are getting so much money on your investment which is so much; your return is so much on that, and we are not going to be interested in that. We are interested in your plant—your telephone plant assessment—and your return is so much on that.

**Mr. Andras:** You are saying, in essence, that the regulation should apply to that portion of your investment related to net plant?

**Mr. Vincent:** Yes.

**Mr. Andras:** If you have hundreds of millions of dollars that are not in telephone plant, and so forth, but invested in all sorts of things, the profit can go where it wants.

**Mr. Vincent:** It will not be in all sorts of things. But whatever it is it is going to be other telephone companies, or Northern Electric or things of that type.

**Mr. Andras:** Northern Electric, are there any in that operation...

**Mr. Vincent:** Northern Electric is in other investments; that is not the telephone...

**Mr. Andras:** Is it regulated as to returns?

**Mr. Vincent:** No.

**Mr. Andras:** Northern Electric?

**The Chairman:** Mr. Andras, you have had a few supplementary questions and I think



we should let Mr. Groos finish his line of questioning. I will put you down.

**Mr. Groos:** I come from British Columbia where the B.C. Telephone Company operates, and they, I presume, have different suppliers.

**Mr. Vincent:** Yes; I am not saying they do not buy anything at all...

**Mr. Groos:** No, I was not suggesting that.

**Mr. Vincent:** But they have their own. The General has been working with Automatic; they have their own.

**Mr. Groos:** Have we any way of comparing the costs of the equipment that they get? I assume they are compatible; I suppose the equipments are compatible, must be compatible, but a comparison of the costs of their equipment as opposed to the costs of your similar equipment from Northern Electric?

**Mr. Vincent:** I am not familiar enough with this. Mr. Lester, can you answer that?

**Mr. Lester:** It is similar equipment but from another supplier.

**Mr. Groos:** Yes.

**Mr. Lester:** It is pretty difficult to get a comparison there. I do not think you can get a direct comparison. The arrangements between British Columbia Telephone Company and General Telephone and Automatic Electric (Canada) Limited and Lenkurt Electric Company—Automatic and Lenkurt are the people that they usually take most of their equipment from... It is very similar to our own at Northern Electric, and I would expect that they get the equipment at something close to, or perhaps a bit more expensive from anything I have known—than we get from Northern. Certainly anything they buy in the open market has a tendency to be perhaps more expensive because of the smaller base of manufacture of some of these people. I think you would find that the prices for comparable items are very close together.

**Mr. Groos:** I think that finishes this line of questioning for the moment.

**Mr. Byrne:** Mr. Chairman, I would like to ask Mr. Vincent something about the power which this Bill appears to give. The Committee seems to be concerned that we are conveying to you much more power in relation to telecommunications than you had previously. I think the question of satellites is the main issue. If it were technically possible to put a satellite into the air in Central Canada without having to go to the equator to provide

television service for all of Canada, would there be any requirement on your part to go to the government or the Department of Transport or anyone else under the present circumstances?

**Mr. Vincent:** There would be and always would be a necessity to go.

**Mr. Lester:** You are putting up a straw man, Mr. Byrne, with all due respect, because it is not technically possible. The present traffic of satellites has to revolve with the earth to appear to be fixed and in order to do that it has to be above the equator, otherwise you would get a tremendous figure eight coming in. However, aside from that the regulations in so far as a spot in space, the launching arrangements, and the space-keeping arrangements are concerned, are all under an international consortium called and abbreviated as INTELSAT which has about forty-odd partners, if I remember rightly and for which the Communications Satellite Corporation in the States is the general manager, as it were. So, it would be essential under any circumstances, at the present time anyway, for the Canadian government to join in negotiations with INTELSAT and other governments when a Canadian satellite system is being incorporated so far as the air part of it is concerned.

**Mr. Byrne:** When you joined with other telephone companies to build the trans-Canada microwave, was there any requirement that you come to the government of Canada at that time?

**Mr. Lester:** We had to have a licence from the Department of Transport because a microwave system is, of course, a radio system and you must have a licence.

**Mr. Byrne:** Under the amendment of 1948?

**Mr. Lester:** No, the Department of Transport. This is still subject to the Radio Act even in the 1948 interpretation and the Radio Act is administered by the Minister of Transport, who grants all licenses for radio in Canada so that when we put up the original microwave system or anytime we extend it we must go to the Department of Transport for a license each time.

**Mr. Vincent:** Before that we had a full line which, I suppose, we still have from coast to coast. This did not involve that kind of a...

**Mr. Lester:** Full lines and cables...



**Mr. Vincent:** What did it with the microwave was the radio.

**Mr. Byrne:** Well, then, there is no power under these amendments to provide for the Bell Telephone or any other telephone company to put a satellite into orbit?

**The Chairman:** Surely your powers are broad enough to allow you to do that? You say they should not. They can do it now if they want to.

**Mr. Byrne:** They cannot do it. That is what I am referring to. They could do it but it must be done by making application to a governmental body and in this case it would be to the international...

**Mr. Vincent:** The Department of Transport and the international body.

**Mr. Byrne:** Could you tell me, Mr. Vincent, the amount of equity capital that is permissible to be retained as undistributed dividends? Is there any limit?

**Mr. Vincent:** Well, I can only go by the experience over many, many years; what we call a pay-out ratio for the dividends as a percentage of the earnings. It has always been very high as it is, I suppose, in other utilities, but it is about 75 per cent to 80 per cent. For instance, if you want to take a specific year, last year the earnings were \$2.98 a share and we paid a \$2.50 dividend so there was 48 cents. What was the pay-off last year?

**Mr. Lester:** Eighty-three.

**Mr. Vincent:** Eighty-three; so really we retained 17 per cent. If you consider it over the years it is very seldom that we retained 20 per cent. It is in that vicinity. Would that be all right, taking it over the years? What we call the pay-off ratio, or the percentage that we made of the earnings to pay a dividend, what is left is about 20 per cent.

**Mr. Byrne:** All right; I understand you to say that 6.6 per cent is the maximum at the moment...

**Mr. Vincent:** Yes.

**Mr. Byrne:** ...of your allowable earnings? How often is this changed and under what circumstances?

**Mr. Vincent:** We were before the Board of Transport Commissioners in 1965 and the judgment came out in 1966. Incidentally, these things take about two years. We got notice from the Board in the summer of 1964

and we got the judgment in the spring of 1966—almost two years—and at that time they changed the basis of regulation from earnings per share to this percentage on total capital so in the case of the percentage you are talking about, that is the first time it came out that way. That is the only one we have had so far.

**Mr. Byrne:** Mr. Lester has said that and The Bell Telephone Company of Canada does not enter into research programs but rather that Northern Electric does all of your research. What sort of liaison do you have which would alert Northern, for instance, to your needs? Does it not follow that the people who are in the communications business would be the first to know what the requirements are and what changes should be anticipated from day to day?

**Mr. Lester:** If I may take a minute, Mr. Chairman, I will describe in some detail the liaison between the two companies. We have an administration committee on which I and a couple of the vice-presidents of Northern sit, which guides the program of the Northern Research Laboratory. As a subsidiary to this senior group we have a group of department heads of chief engineer calibre. There are three of them from both Bell and Northern and their chore is, if you will, to filter the requirements that come through from various sources. Our own marketing people in Bell who identify the needs of the public, items that seem to be required, and this kind of thing, are technical people who have filtered what has come through from Bell Telephone laboratories and from elsewhere in the world, because we have liaison through the International Telecommunications Union on a world-wide basis and through Northern's international operations, and those things are filtered in this committee.

They try to make a business decision that this or that project is a matter that should be gone ahead with from the standpoint of service, profitability, cost and so on. It is then assessed by the administration group and a decision is made that it will be gone ahead with and the work is proceeded with in the Northern Electric laboratories.

I think the answer to your question is that the tentacles, if you will, of the Bell marketing organization are spread out into the social structure to determine what is required. We receive quite an assist through our AT & T contract from Bell Laboratories and from, in fact, the AT & T marketing people who identify the needs in the United

States which, generally speaking, tend to be much the same as in our own social structure. We have the international field identified both by our own people from a user standpoint and by Northern from a manufacturing standpoint.

**Mr. Cantelon:** I was very interested in some of the questions that were just asked. I would like to ask a couple of questions along this line myself. My first question concerns the satellites. If I heard you correctly I believe you said that the only way in which a satellite can operate and continue to operate is to have it in a polar position, or was it in an equatorial position?

**Mr. Lester:** There are different kinds of satellites, sir. The types that are being used, the Early Bird satellite and the ones that COTC, and so on, are using are over the equator. It is an equatorial orbit. You could have and the Russians, in fact, do have an elliptical orbit in the northern hemisphere but the ground station must be capable of keeping track of it as it goes from one horizon to the other and this tends to require rather expensive and sophisticated ground gear. This was the basic reason for going into an equatorial orbit.

**Mr. Cantelon:** Is it impossible to have a polar position?

**Mr. Lester:** No, a polar position would not do the same thing. You still have to have a sweep of the sky from north to south and unfortunately the world is not spinning that way.

**Mr. Cantelon:** That really complicates the problem. It is too bad that it was not invented in such a way that it was regular. We cannot change that?

**Mr. Lester:** No, I am afraid we cannot do that.

**Mr. Cantelon:** The other question I want to ask really has to do with administration with respect to satellites. I hope this question is very hypothetical and highly improbable, but suppose the country did separate into two parts and, let us say, the Quebec administration wanted to set up a satellite and asked you to do it; you might find yourself in an awkward position?

**Mr. Vincent:** Of course, perhaps I am naïve but I have a great deal of faith that they are going to resolve their constitutional problems. I have not envisaged what you said. However, Alex, if you want to comment on that, go ahead.

**Mr. Lester:** I think the answer to the gentleman's question is yes; we would be in quite a fix.

**Mr. Cantelon:** That is what I thought.

Another question—and this is one that is really more serious—has to do with clause 11 of the Bill. I would like you to clarify my information on this. I understand a suggestion has been made that there might be a change in this Act by adding a section after the word “incurred”?

**Mr. de Grandpré:** May I comment on that?

**Mr. Vincent:** Yes, I would be glad to have you comment.

**Mr. de Grandpré:** When we filed our bill the Canadian Federation of Mayors and Municipalities got in touch with the Company through me and their representative at the time was Mr. Carroll. He said, “You have suggested an amendment to section 3 and you want to replace the word ‘telephone’ by ‘telecommunication’.” He also said, “I agree that this should be done but if you do this you have to make sure that section 378 of the Railway Act still receives full application”. Section 378 of the Railway Act, to refresh your memory, deals with the problems that could exist between municipalities and the telephone company or the telegraph companies respecting the location of wires and lines on their streets. In order to resolve this problem a procedure is spelled out in section 378 under which a municipality or the Company may apply to the Board of Transport Commissioners or to the Canadian Transport Commission in order that a ruling may be made to determine under what terms and conditions the lines are going to be buried, for instance, or where the lines are going to be located. He says that as it now reads there could be some problem relating to whether section 378 still receives its application in view of the fact that the Railway Act refers to “telephone and telegraph lines” and your act refers to “telecommunications”.

In order to solve this problem, which was not a very serious one, we agreed to add a few words after the last word of section 11, which is the word “incurred”, and a brief has been filed by Mr. Carroll to the effect that the following words should be added:

Section 378 (except subsection 1 thereof) of the Railway Act shall apply to the Company insofar as lines or lines of telecommunication are concerned.

So that the problem has been solved between Mr. Carroll and myself.



**Mr. Canelon:** That is the reason I asked. I just wanted to get it down and I have it here.

**Mr. Jamieson:** Mr. Chairman, one of the areas that was mentioned as being in competition with your Company was microwave. What is the status of microwave nationally at the present time? You have a complete coast-to-coast microwave system operated by Bell?

**Mr. Vincent:** When you say "we", it is ourselves and the other companies across the country. They own the part within their own boundaries. We own the part between Ontario and Quebec and each province owns its own.

**Mr. Jamieson:** Who administers it? Is that Trans-Canada Telephone?

**Mr. Vincent:** Yes.

**Mr. Jamieson:** What is the alternative, then, to that system? Is there a CN-CP paralleling it all the way?

**Mr. Vincent:** I do not know if you would say "paralleling" but I guess widely speaking, yes.

**Mr. Jamieson:** The end result is that there are two systems across Canada?

**Mr. Vincent:** Not completely all the way, no. What is the CN-CP route?

**Mr. Lester:** Essentially they are all the way. The CN-CP route goes from the west coast to Montreal and from Montreal through Quebec to Moncton and across through Sydney to Newfoundland and across Newfoundland. So essentially they have a series of systems, if you will, which connect right across the country.

**Mr. Jamieson:** Yours does not go beyond what, Sydney in the east?

**Mr. Lester:** That is right. The Avalon Company, to the extent that they need long distance circuits over microwave, rent them from the CN in Newfoundland.

**Mr. Jamieson:** Referring back to this question of competition and taking the television services in particular, is it possible, for instance, for you or the other line to carry both television network services?

**Mr. Vincent:** Yes.

**Mr. Jamieson:** So you have the capacity to carry both?

**Mr. Lester:** Well, in fact, we carry the CBC English network and the CTV network and

the CN—I think I am right—carry the French network, but as you know the French network does not go right across the country now, but the CN and CP do carry it.

**Mr. Scrivener:** Mr. Chairman, the trans-Canada telephone microwave system is carrying both major TV networks across Canada today, so it obviously has the capacity to do it.

**Mr. Jamieson:** To your knowledge, did the CN-CP bid for any of that business? Did you get it on a straight negotiated basis, or something of that sort? Have they the ability to do it?

**Mr. Scrivener:** I can answer this way, Mr. Chairman, that the time the original network was established the CN-CP did not have a network. When the independent CTV network was established it was obtained by the telephone industry on a competitive basis. They went out to get the best price they could for their Canadian network. That was a competitive situation between ourselves and the railways. Because the railways have a system which has the capacity to be competitive, the next time the contracts come up for renewal it will be a competitive situation.

**Mr. Jamieson:** Apart from the carriage of network television and your own use of microwave? Have you many customers good deal of this capacity now for telephone service, or whatever the technical language is, are there any other major users of your microwave. Have you many customers besides the networks?

**Mr. Vincent:** There are other lease facilities right across the country, I believe.

**Mr. Scrivener:** On the microwave system, in addition to television, you can carry any type of communication channel. You have a sophisticated one to carry a picture or a simple one to carry a telegraph signal. The facilities are used for all these purposes for different customers. If we wished to lease a facility to your business from Montreal to Vancouver we would lease it to you on that system.

**Mr. Jamieson:** Is much use being made of this? Do you have many customers other than the networks?

**Mr. Scrivener:** We have a lot of private line business, and we carry radio network facilities on this system. We lease facilities to the Canadian Overseas Telecommunications Corporation, to carry their overseas circuits from Vancouver back to their Montreal point.



There is other business on this network in addition to television and the normal toll, long-distance-message networks.

**Mr. Jamieson:** There used to be a requirement, as I recall, in radio broadcasting days that a radio station operator had to make use of the land lines of a public carrier and that he could not have his own. I remember occasions when one had to apply even to get a standby type of line. Does this apply now? Is there any such regulation now with regard to microwave? Forgetting the economics of it for the moment, could the network apply to operate its own microwave service?

**Mr. Scrivener:** Given two considerations, Mr. Jamieson: If they have the legal powers to operate a microwave system . . .

**Mr. Jamieson:** They would have to get these from DOT of course.

**Mr. Scrivener:** Assuming that they had the legal powers, they would then have to get the licence from DOT, and having that they could operate their own system.

**Mr. Jamieson:** My point was whether your Company has ever taken action to oppose this kind of private operation, or would you do so?

**Mr. Scrivener:** This is part of the competitive atmosphere in which one bids on contracts.

**Mr. Jamieson:** I understand that, but I asked whether there was, in fact . . .

**Mr. Vincent:** We compete in providing facilities . . .

**Mr. Scrivener:** There are two things which must be taken into account. The first is that the networks have not seriously considered building their own exclusive-use networks.

**Mr. Jamieson:** No; it probably would not be very practical.

**Mr. Scrivener:** Secondly, it has never come up directly. In other words, we have never had any situation that we reacted to. The basic reaction is that surely, in the competitive atmosphere, a network that has a multitude of uses can offer to the TV interests the part of the system they want at a better price than can a network that was built exclusively to depend on TV network revenue, for example.

**Mr. Jamieson:** I had in mind a number of instances, which have come to light recently, of comparatively short-haul microwave where there do appear to be certain advantages

to the operator in installing his own equipment or in applying for the necessary authority to do so. I believe this is likely to become more evident as we see satellites, not in the atmospheric sense, but ground satellite stations.

Specifically, if there was an application to the DOT to cover the distance from Ottawa to Kingston, to take a particular case, would the Bell, if they already had facilities there, oppose that kind of application?

**Mr. Scrivener:** No. We would offer our facilities at a price that would cause you to look very carefully at building your own, but we have no grounds on which to object to someone else buying, paying for and using their own microwave system. If DOT sees fit to grant a licence that is what will happen.

**Mr. Jamieson:** What about the argument, that could conceivably be valid in some instances, about this private facility using up frequencies and causing a frequency shortage and perhaps affecting you?

**Mr. Scrivener:** That is exactly where DOT enters into it. The DOT has the responsibility . . .

**Mr. Jamieson:** Would you not have legitimate grounds for opposing an application on that basis?

**Mr. Vincent:** I do not think so.

**Mr. Scrivener:** Perhaps we would; but it seems to me, as Mr. Vincent is implying, that the Department of Transport is charged with the responsibility of protecting this aspect of the public domain. I am sure you could rely on their satisfying themselves that any public domain to be used would be properly used.

**Mr. Vincent:** It could come from brokers, or from a pipe line; it could come from departmental sources that operate around the country. It is not only TV. Anybody could say that they wanted to have a system of their own.

**Mr. Jamieson:** I understand that. You have given me a fairly clear-cut answer, and, first of all, as I understand it, you have no protection against some other person coming in to operate a microwave, and, secondly, it is not your policy to oppose such applications.

**Mr. Vincent:** No. We think that is the government's job.

**Mr. Scrivener:** There are a number of private microwave systems in Canada. By "private", I mean built, owned and operated exclusively for the owners.

**Mr. Jamieson:** Yes.

**Mr. Scrivener:** There are a number of private microwave systems in Canada which, presumably, are doing something for customers that the regulated utilities could do for them.

**Mr. Jamieson:** I understand that. I was referring only to those areas where you have a service available and somebody else is coming in to perform the same service.

I have one last question on this topic, and then, with the Chairman's permission, I would like to ask some questions about satellites. In the case of private customers there is no rate control at all; it is strictly a market-place proposition. In other words, you negotiate with networks. These tariffs do not have to be approved by the Board, or by anyone.

**Mr. Scrivener:** That is right, Mr. Jamieson. The Board of Transport Commissioners regulates all the prices and tariffs for services that are connected to the basic telephone network but it does not regulate the prices and tariffs for those which are not connected to the telephone network, such as a microwave channel for a TV broadcast. This is purely a market-place pricing type of situation.

**Mr. Jamieson:** I would now like to ask a question or two about the satellite proposal. I understand that you are a party to the CN-CP-Bell proposal which was submitted to the Department of Transport some months ago.

**Mr. Vincent:** When you say "Bell", you mean the Trans-Canada System?

**Mr. Jamieson:** Well, I can never get that one very clear in my own mind; but the Trans-Canada Telephone System is jointly applying, or has placed this proposal. If this were to "fly"—and I mean that figuratively as well as literally—what would be your relationship? Would this be a new company financed by all three of you, or how do you envisage it would operate?

**Mr. Vincent:** We have not faced that question yet. It could be a separate company, or there could be an arrangement by which we have a part-ownership without necessarily forming another company. I do not know. I do not think we have gone that far.

**Mr. Lester:** No, sir, we have not gone that far. We have taken some looks at it. There would not appear to be any great difficulty in

arriving at some means of dividing the costs and the revenues between the partners.

**The Chairman:** You are just interested in seeing that your claim is in for a piece of the cake. Is that not it, really?

**Mr. Jamieson:** That is so, I suppose, in a way; but I was going to ask if this was, in a sense, a way of acquiring, or establishing, a new company, or of Bell getting into a new company?

**Mr. Vincent:** No; we have an arrangement today between the telephone companies. Where there is no other company to deal with, how do we separate the revenues and the capital investment across the country? There is no other company there. There is just an arrangement that we own certain parts and the revenue is a certain amount, and we split the revenue in a certain way. That could be done without another company.

**Mr. Jamieson:** I appreciate that, but would it not still be a case of the Bell or Trans-Canada Telephone, whichever you like, participating in, or presumably putting some money into a company along with CN and CP?

**Mr. Vincent:** This is because the two microwave systems are owned by these two organizations. They go across the country and at some point we will both need other facilities and this is the way to get it.

**The Chairman:** What advantage does Bell get from Northern Electric having been granted this by the Department of Transport and by the government's funds for research in the satellite field? Do you get some advantages over and above your competitors?

**Mr. Vincent:** I do not think that it was exactly that kind of thing they were asking. They were asking for a survey in the space area.

**Mr. Lester:** This was not really research, Mr. Chairman; this was a report requested by the Department of Transport on the status of satellite service in Canada and the opportunities resulting therefrom.

**The Chairman:** This information is available to you.

**Mr. Vincent:** I have not seen it.

**The Chairman:** It would be available to you.

**Mr. Lester:** I presume parts of it would be. The report itself of course was made to the



science secretariat and will be divulged or disclosed by them to anyone concerned.

**Mr. Jamieson:** The report is completed then, is it?

**Mr. Lester:** Yes, sir.

**Mr. Jamieson:** I have one last question on this.

**Mr. Scrivener:** Mr. Chairman, I would like to clarify this. To the extent that governments call on industry to handle projects for them, I do not think there is any question.

**The Chairman:** No, no. I was asking because of the relationship between Bell and Northern Electric.

**Mr. Scrivener:** To the extent that you carry out a project presumably you have gained some competence.

**The Chairman:** There is no question of that. We are not talking of competence. Let us not cloud the issue.

**Mr. Jamieson:** I will conclude with this last question on the satellite proposal with CN-CP. As I read it, this does involve the satellite and the operation of land stations for the reception of the signals. Secondly, as I understand it, it is exclusively for television use. Is this right?

**Mr. Lester:** No. This is perhaps the point at issue. This satellite system is regarded simply as we would regard a third microwave system across the country. Whether it be television or telephone, this is another facility to get it right across the country. The advantage is that we can get to places in northern Canada that we cannot get to economically with microwave.

**Mr. Jamieson:** Perhaps I misread the gentleman, but I recall distinctly when I talked with the representative of CN—the project may have been modified subsequently—that at that time this was primarily for television purposes and this would be the major use of it. In fact there would be land stations both for reception and transmission, and this is the key point I am getting at. Even though you may not be in the television business or the network business per se from a programming point of view, as I understand it, this system would require that this consortium would do the actual transmitting from land stations, where the signal is picked up.

**Mr. Lester:** Of course we do now by the microwave system.

**Mr. Jamieson:** No, no; I am talking about transmission for public reception.

**Mr. Lester:** Oh, no. The transmission for public reception would be by the network itself, CBC, CTV or whoever the station might be. The consortium would simply be the carrier, as they are now, from the input end to the output end. The signal would be delivered to the television transmitter and then spread to the populace. This is the idea of the thing.

**Mr. Jamieson:** Then your proposal does not contemplate the operation of transmitting stations from the public reception point of view?

**Mr. Lester:** If I could take a minute, Mr. Chairman, there were really three major uses behind the proposal. One is to Northern Canada which I have touched on. There are telephone requirements both in the Eastern Arctic where Bell operates predominately and the Western Arctic where CN operates predominately, and really the only sensible way to get to these is by satellite. It is very difficult economically to put a microwave system in; it is nearly prohibitive. Coupled with that of course there is a desire on the part of CBC particularly to get television coverage for the whole of the north country. Therefore this urge to get transmission to the north on a telephone basis is important to television.

The countrywide distribution of television networks, to the extent that they may be more economical via satellite than via microwave, is a second attraction. The third one is the long haul ordinary toll telephone traffic which in terms of economics as we now know them—and the economics of satellites of course are subject to change from time to time as we get closer to it—would prove in at distances over 1,500 miles. In other words the circuits in Canada, which are over 1,500 miles long, would look from this point of time to be more economical via satellite than via microwave. These are three reasons for our concern in getting this system up. For example, on the requirement for long haul telephone service the cross section right now is about 1,000 circuits. Interestingly enough, this is between Regina and Winnipeg. We believe with the expected growth this would be up to 7,000 circuits by 1980. I think it is obvious that in addition to the microwave system we have or may have, it is going to be an advantage to take the longer haul stuff via satellite in such a growth.



**The Chairman:** Mr. Andras, you are next.

**Mr. Andras:** Mr. Vincent, going back to my previous questioning, I would like to see if I have the right pattern of the controls that apply to your operation. In addition to the detail control, establishing of rates and so on, and I am mainly talking of Bell telephone now, am I right in assuming that it is the control of your profit return as expressed as a percentage of your capital investment...

**Mr. Vincent:** It is the total capital.

**Mr. Andras:** Total capital investment. In other words, the regulatory body said: "You are entitled to earn such and such a return on your total capital investment."

**Mr. Vincent:** That is right.

**Mr. Andras:** Treating it as a separate company for the moment, would this same regulation apply to Northern Electric?

**Mr. Vincent:** No.

**Mr. Andras:** Then does the control on Bell include the effect of dividends passing from Northern Electric to Bell?

**Mr. Vincent:** Yes. I think what has been more significant to the Board of Transport Commissioners over the years is the actual percentage returned by Northern Electric operations, because this is a more significant figure than a dividend.

**Mr. Andras:** Yes, it is.

**Mr. Vincent:** For instance, in some years it has been an advantage for Northern to retain their earnings rather than have the need of more equity from Bell.

**Mr. Andras:** Yes.

**Mr. Vincent:** Or you can have the other situation where they pay a dividend to Bell. But at one time they may require more equity to finance their own expansion, depending on how fast this expansion comes. The significant figures to the Board of Transport Commissioners was first of all in respect of the over-all return of Northern Electric on their total investment.

**Mr. Andras:** But Northern is not subject to regulation.

**Mr. Vincent:** No, no; except that they wanted to be sure—and this was looking at audited figures—that their over-all return was better than our own, that obviously then they were not operating at a loss and this was coming from Bell. Whether their earnings were partly retained or returned or whether

they pay a dividend, the other significant thing they wanted to look at was the price level.

**Mr. Andras:** Yes.

**Mr. Vincent:** They also wanted to be sure that the prices to Bell were not any higher, that they were at least as high or lower than the prices to the others so they would not say the customer was subsidizing Northern Electric.

**Mr. Andras:** That is right, and you have just expressed the very obvious reason for that.

**Mr. Vincent:** They have always looked at the over-all return of Northern and also the price level. This is a very significant thing. I would like to quote from the last judgment. Would you read it please? I raise this point because it is important.

**Mr. de Grandpré:** This aspect was gone into by the Board of Transport Commissioners during the earnings hearings that took place in May and June, 1965, and which were concluded by the judgment of May, 1966. There is a concluding paragraph on the Northern Electric-Bell relationship which I would like to quote:

On the evidence, the board find that, at this time, Bell's investment in Northern Electric is not in fact prejudicial to the interests of Bell's telephone customers; that the prices paid by Bell to Northern Electric are as low as or lower than going prices; that Northern's over-all rate of return does not appear to be excessive in comparison with the general average of other manufacturing enterprises of a similar nature and in comparison with the rate of return earned by Western Electric in the United States; that the rate of return earned by Northern on its Bell business is lower than the rate of return earned by Northern on its non-Bell business; that the rate of return earned by Northern on its Bell business is not unreasonable and not much higher than the rate of return earned by Bell as a utility; and that the Board is not of the view that Northern's rate of return on its Bell business should be limited at this time at the rate of return which the Board finds reasonable for Bell.

**Mr. Andras:** Perhaps this is a hypothetical question, but had the Board found, for any one of a number of quite legitimate reasons, that the prices Bell paid to Northern were

perhaps high enough to raise an eyebrow? What authority would the Board of Transport Commissioners have had with respect to dictating Bell's action in that circumstance?

**Mr. de Grandpré:** They could reduce the rate base which was the total invested capital by that proportion which they thought we had overpaid for the equipment we bought.

**Mr. Andras:** Yes.

**Mr. de Grandpré:** And instead of being given a rate of return on, let us take \$2 billion as a round figure, the Board could have said it was only on \$1.9 billion because we had overpaid to the tune of \$100 million. What is very important to bear in mind in this discussion, Mr. Andras, is this: let us assume, for instance, that Bell is paying exorbitant prices for its equipment. The situation in Canada is very different from the situation which prevails in the United States. In the United States, the American Tel and Tel, for instance, is the holding company of both the manufacturing company and the operating companies. Therefore, if the prices on the sale of equipment by the manufacturing company, Western Electric, to the operating companies become too high then the profits flow to AT & T and not to the subscribers. In Canada the situation is very different as far as Bell-Northern are concerned. If the profits of Northern are too high, they flow back to Bell and therefore the return on the investment is part of Bell's income and is calculated in the 6.6 per cent.

**Mr. Andras:** That is exactly the point I was trying to get at earlier. Mr. Vincent, that regulation is the over-all control. As I say, no matter where you place your influence—the profit centre could be in Northern or any one of these other companies you might want to buy—eventually the final destination of profits in the form of dividends will flow back to Bell and your total income is subject to this regulation. But Mr. Vincent is suggesting this be changed to allow that—let me finish and I will see if I am wrong or right. If I am wrong it certainly should be cleared up.

My understanding of your statement today is that you would prefer to have the regulation controlling your total profits to apply to the investment in plant only. The point which puzzled me is that you could have \$100 million or \$500 million invested in plant and another billion dollars invested in Northern or other ventures which are not subject

to regulation and if the regulation applied only to your plant investment then those dividends could flow back and the exact point you were making, sir, of ultimate control, is lost. And I say, then, that the subscribers, in the end, directly or indirectly, would be the ones paying for it.

**Mr. Vincent:** I was not advocating a net plant regulation. I was saying that if people are suspicious about this and the Commissioners prefer to sort it out, they can do this. But I am not saying that I was asking for this.

**Mr. Andras:** Oh no, no. And I am not accusing Bell of those kinds of motives. But let us face it, we have a public responsibility. If we went the direction that you seem to be suggesting and applied the regulation to the net plant then we would be completely dependent upon the decisions you make in Bell. There would no longer be public control over this situation. You used the words "exorbitant prices". Let us be practical. Probably even if you deliberately set out to do it—I am not suggesting you would—the prices would not be exorbitant but maybe 2 per cent or 3 per cent or 5 per cent higher than otherwise. There are a hundred ways this could be done. I even suggest that with the fairest of motives on your part if you had this situation, this opportunity, placed before you, as good managers you would probably quite correctly, in your responsibility to your shareholders as opposed to your subscribers, say: "Let us maximize our profits by doing it this way. Not ridiculously so but to a slight degree." That slight degree, inevitably, in my opinion, would end up back in the hands of the subscribers to pay the rates.

**Mr. de Grandpré:** It is not an insoluble problem. It has been the problem of the regulatory authorities in the United States and they have made sure that the operating companies were not paying too high a price for equipment. Therefore they examined the pricing structure of Western Electric when selling to the operating companies.

**Mr. Andras:** I am quite sure that if this suggestion were carried forward into legislation or a relaxation of legislation, that kind of detailed study and investigative analysis would continue. But my point is that the ultimate control, the ultimate protection, would then be gone. If I have understood this correctly I would want to know a great deal more about it before I could support such a move.



**Mr. de Grandpré:** The focus of regulation would change.

**Mr. Andras:** Oh, yes. But the basket clause of an over-all control on investment would then be gone.

**Mr. de Grandpré:** Yes, so that the Board would have to concentrate its attention on this very question of the pricing structure of the manufacturing companies to make sure that we were paying a reasonable or current price for the items sold to Bell.

**Mr. Andras:** That is right. And the more successful you were in acquiring companies' controlling interests or even minority interests through clause 8, the more complicated the situation would become. For instance, how many other companies do you own partially or otherwise, besides Northern, which are not regulated themselves as to profit?

**Mr. Scrivener:** They are all regulated. They are all operating telephone companies.

**Mr. Andras:** Northern is the only one?

**Mr. Scrivener:** Northern is the only one.

**Mr. Andras:** Thank you. I think I have cleared up the questions I wanted to raise.

**Mr. O'Keefe:** Mr. Chairman, first of all I should apologize for my absence this morning. I was attending another meeting.

**The Chairman:** That is heresy, attending another meeting, Mr. O'Keefe.

**Mr. O'Keefe:** There are other important meetings, Mr. Chairman. Some are even more important than Bell Telephone.

**The Chairman:** They do not seem to think so.

**Mr. O'Keefe:** Mr. Vincent, how many Canadian shareholders of all kinds are there in Bell Telephone?

**Mr. Vincent:** There are a total of 257,000, and 97 per cent are Canadian.

**Mr. O'Keefe:** 97 per cent. So only 3 per cent is owned by people outside of Canada?

**Mr. Scrivener:** Shareholders, yes.

**Mr. de Grandpré:** 94 per cent of the total shares.

**Mr. Vincent:** You are speaking of shareholders though, not money.

**Mr. O'Keefe:** The percentage of control.

**Mr. Vincent:** The percentage of money?

**The Chairman:** Control.

**Mr. O'Keefe:** Both percentages: the percentage of control and the percentage of money. Can you give me both?

**Mr. Vincent:** Ninety-four per cent of the dollars of capital is in Canada.

**The Chairman:** The largest shareholder is AT & T at 2.2 per cent.

**Mr. O'Keefe:** Mr. Chairman, with all due respect to you would you allow Mr. Vincent to answer?

**Mr. Vincent:** Canadian interest amounts to 94 per cent and the AT & T, as the Chairman suggested, is 2.2 per cent. The difference is made up of some others also in the United States outside of AT & T and the rest from all over the world, mostly in England.

**Mr. O'Keefe:** It is now in all seriousness a Canadian company.

**Mr. Vincent:** To the extent of 94 per cent, yes.

**Mr. O'Keefe:** This precise statement of your request seems to me rather simple—the power to engage in the telecommunications business. Are you not in that now?

**Mr. Vincent:** Oh, yes.

**Mr. O'Keefe:** Power to acquire any kind of company? Cannot any of us buy a company if we have enough money?

**Mr. Vincent:** What is that, sir?

**Mr. O'Keefe:** You are asking for the power to acquire any kind of company. I say, is this not possible for any of us, if we have enough money?

**The Chairman:** Not for Bell.

**Mr. Vincent:** No, we cannot.

**Mr. O'Keefe:** I thought this was a free enterprise country.

**The Chairman:** They have a charter, Mr. O'Keefe.

**Mr. O'Keefe:** I am sorry, Mr. Chairman.

**The Chairman:** It was sent to you.

**Mr. O'Keefe:** I did not have the opportunity to read it. You are asking for the power to raise \$2.3 billion during the next decade. Unless you go out with a gun I see no objections to that. I suggest, Mr. Chairman, that The Bell Telephone is doing a thoroughly good job.

**The Chairman:** Mr. O'Keefe, you are supposed to ask questions not make statements. I



suggest you read the charter that was sent to you some time ago.

(Translation)

**Mr. Émard:** Mr. Chairman, I agree that the lawful activities of The Bell Telephone Company should not be restricted. However, I do believe that Parliament has the duty to supervise its activities, and I wonder how this supervision could be exercised in such a complex organization. I also note that the new Act governing the jurisdiction of the transport commission makes no reference to communications. Do you have any suggestions regarding the type of supervision and the manner in which it could be exercised by Parliament?

**Mr. Vincent:** We are satisfied with the present system. You said that communications were not mentioned, but communications have always been studied by the Committee and the Act must cover that point.

**Mr. de Grandpré:** This is the way things stand. The new Canadian Transportation Commission is authorized to create committees to supervise the operation of interprovincial trucking, maritime transport, railways, and pipelines. The committees were set up by the new Commission about a fortnight ago, but they do not yet have their full number of members. The structures of the various committees have all been established. According to information which was given to me by members of the Commission, it was decided that the Railway Transport Committee would be the regulatory body dealing with the two telephone companies which fall under federal jurisdiction, namely British Columbia Telephone and The Bell Telephone Company of Canada. Hence, the new Commission will have regulatory jurisdiction over us, so to speak, through the Railway Transport Committee.

**Mr. Émard:** Do you think that this new Committee will have the qualified experts to exercise regulatory control over such companies as the Bell Telephone and the B.C. Telephone?

**Mr. de Grandpré:** At the present time, there are economists and advisors, and there is also a legal department. Furthermore, the Committee is authorized to hire other personnel, if it so wishes.

(English)

**The Chairman:** I should let you know, Mr. Émard, that the Steering Committee has

come up with the conclusion that the Transportation Commission will be asked to send one of their people to this hearing in connection with the regulatory powers.

(Translation)

**Mr. Émard:** Another question. This morning, you mentioned that the Company exports certain products, in particular to Turkey, I do not remember the names of the other countries. Besides exporting equipment, are you called upon to provide technical services, either to European countries which are less advanced in the field of telephone communications or to underdeveloped countries?

**Mr. de Grandpré:** We have been asked to set up some kind of department which could export the technical know-how acquired by the Company in order to help other countries, and this applies not only to those countries that are in the process of developing but perhaps to those countries that are in the process of developing in the field of telecommunications, and a group is presently working on this problem inside the Company.

**Mr. Émard:** One final question. I believe that all industries, whether they are incorporated by an Act of Parliament or otherwise, have the same obligations towards the public, towards their employees and then towards their shareholders. Concerning the public, they must provide the best service possible, at a reasonable price; concerning their employees, I believe that they must pay wages and provide satisfactory working conditions; and with regard to their shareholders, they must provide a reasonable return for their investments. Now, do you believe that your Company is fulfilling these conditions?

**Mr. Vincent:** I do not think we would be operating if we were not meeting these conditions; in my view the interest of the public and the interest of the shareholders are identical. Our shareholders' interests will be safeguarded, if we operate in the interest of the public, otherwise we would not be here.

**Mr. Émard:** I was thinking more particularly about your workers and your employees.

**Mr. Vincent:** I think we are fulfilling our obligations quite adequately in that particular field . . .

**Mr. Scrivener:** Yes, because of the unions!

**Mr. Émard:** Do you believe the wages that

you are paying at the present time compare with those paid by industry, considering the favourable position of the Company, that is, the economic position of the Company?

**Mr. Vincent:** Well, first of all, seeing that we are a public service, and furthermore, seeing that in industry in general wages are studied from year to year, and also considering the fact that we have to sit down and negotiate an agreement with the unions nearly every year, I think what we have done compares favourably with what has been done elsewhere.

**Mr. Scrivener:** A company has to be able to keep its employees, or else...

**Mr. Émard:** Yes, but there are companies, at the present time, who pay their employees \$1 per hour, which is the minimum wage in the province where they work. I do not think that is the problem. I believe we must consider the position of the Company, the financial position of the Company. From my point of view, the financial position of the Company stands comparison with that of any of the better Canadian companies and I imagine the wages you pay to your employees should compare with the best wages paid in Canada for the same work.

**Mr. Vincent:** The main reason is that we need a great number of technicians. That is due to the fact that this type of business is of a rather technical nature. Without that we could not make ends meet.

*(English)*

**The Chairman:** Mr. Émard, we are not in the field of labour relations at this hearing. Mr. Pascoe?

**Mr. Pascoe:** Mr. Chairman, I have just a couple of very short questions. The first one is just for information of a rather regional nature. In the summary of your brief on page 1 you say:

Bell works in cooperation with the other communications companies...

In Saskatchewan where I come from, of course, it is the Saskatchewan Government Telephones which are controlled by the government, so you would have no financial interest in that. Just to what degree does your co-operation extend? Is it just for the use of the wires for calls going through, or would Saskatchewan Government Telephones have access to your research and know-how as well?

**Mr. Vincent:** They have access to our research and know-how through a service contract which we have with them. It is the same kind of contract that we have with the AT & T Company; we have a similar contract with Saskatchewan.

**Mr. Pascoe:** They pay for it, then.

**Mr. Vincent:** They pay for it on the same kind of percentage basis and they get not only research information but information on methods of operation, engineering and so on. Apart from this contract, of course, we have the trans-Canada system which works together on the provision of facilities and provision of revenue, which is separate from this service contract. Would you like to add a word about the service contract aspect of this?

**Mr. Lesier:** Yes. I think Mr. Vincent has the main points of it. Not only Saskatchewan but each of the major telephone companies across the country—with the exception of BC Telephone—have a similar arrangement with General Telephone. We have a service contract. Saskatchewan, for example, pay us a fee which is one-half of 1 per cent of their revenue and in return they receive the know-how that we have developed in the operating and engineering fields, and so on. They do not, of course, have access to the Bell Laboratories patents. They have to pay royalties on anything they may get that involves a Bell Laboratories patent. Other than that they get as complete a story as we can make available to them.

**Mr. Scrivener:** Excuse me, Mr. Pascoe, but I might say that our people are out there a lot; their people are down here on training courses; we exchange information; it is a continuous thing that goes on daily to keep one another in touch with what is going on in the industry.

**Mr. Pascoe:** Just one more short question, Mr. Chairman. Perhaps I will show my financial ignorance but I understand that you are allowed a 6.6 per cent permissive level of earnings on your total capital investment. You are asking for \$750 million and 6.6 per cent of that would be over \$45 million in permissive earnings allowed above what you are doing now. Would that create any possibility at all of raising your rates in order to bring in these earnings?

**Mr. Vincent:** First of all, you said it would be 6.6 per cent on \$750 million but it would



be 6.6 per cent on something higher than that. It would be 6.6 per cent on—

**Mr. Pascoe:** I mean the extra \$750 million.

**Mr. Vincent:** No, it would be on whatever the market price is. It might be around \$1.3 billion so it will be higher than on the \$750 million. Is this going to result in an increase in rates in the next ten years? That is what you are asking. There will be other factors that will probably still be more important than that.

**Mr. Pascoe:** But there is a possibility?

**Mr. Vincent:** There is always the possibility of a great number of things in the next ten years but all I can say to you is that there is no intention of increasing the rates now, but if you are speaking of ten years from now, I do not know.

**Mr. Pascoe:** Well, I raised the question, Mr. Chairman, that is all.

**The Chairman:** It is now 5.25 p.m. There are no further questioners although I have a couple of questions to ask. It was our intention to adjourn at 6 o'clock because there are other meetings which I understand some of the members have to attend, so we will now adjourn at 5.30.

We have not crystallized our plans with respect to calling other witnesses or determined how long the questioning of the Bell witnesses will take. Now, if it is your pleasure we can have the witnesses from Bell back again or we can move on to other witnesses and then the people from Bell can return.

**Mr. Émard:** I think we had better hear from the other witnesses and then Bell could return.

**The Chairman:** I will be able to get together with the Steering Committee late this evening and crystallize those plans.

I would like to refer to one question that was raised this morning. I think Mr. Schreyer was questioning Mr. Vincent on the merger between publishing companies and telephone companies which is happened in the United States. Is Bell considering any such action in Canada?

**Mr. Vincent:** No.

**The Chairman:** But it would be possible under your present powers, would it not?

**Mr. Vincent:** Yes.

**The Chairman:** You would have this power?

**Mr. Vincent:** It would be possible under our present powers but it would not be possible under the power that we are asking.

**The Chairman:** I am speaking of your present powers, without the amendments.

**Mr. Vincent:** Without the amendments. Right now it is possible; right now we could.

**The Chairman:** Yes. With that possibility in mind you could go into a type of publishing with facsimiling newspapers, really, in a sense, could you not?

**Mr. de Grandpré:** Yes.

**The Chairman:** I gather there is also criticism of the fact that Bell has a special privilege because it has a Dominion charter. What restrictions would you expect to see if Bell was really operating in Ontario under a provincial charter and in Quebec under a provincial charter there, which are two separate charters?

**Mr. de Grandpré:** What would be the net result?

**The Chairman:** Yes, to Bell.

**Mr. de Grandpré:** We would have to take a very hard look at the implications.

**The Chairman:** You know the criticisms that are made by other companies which are provincially chartered. They say they are at a disadvantage when compared to Bell, which has a Dominion charter. I am not criticizing the fact of the Dominion charter, I am just bringing up the question. Would it restrict your operations? Would it make regulations more severe?

**Mr. Vincent:** Who is criticizing?

**The Chairman:** It will come out in the hearings.

**Mr. Vincent:** I do not think—

**The Chairman:** I think they are competitors, Mr. Vincent.

**Mr. Vincent:** No.

**Mr. de Grandpré:** You mean the rates would be higher if we were under provincial charter?

**The Chairman:** Regulatory control, yes.

**Mr. de Grandpré:** I think history proves that the Quebec Public Service Board has been more generous than the Board of Transport Commissioners with respect to rates.



**Mr. Scrivener:** This may be a hypothetical observation, but you would have a provincial jurisdiction presumably assuming some form of a constitution on the intra-provincial portion of the operation?

**The Chairman:** Right.

**Mr. Scrivener:** You would then also presumably have a federal jurisdiction for the inter-provincial portion, assuming that is what the constitution distributed in the way of powers, and you would have to not only sort out the jurisdiction but the investment which is subject to the jurisdiction. There is nothing impossible about this but this would be the path down which that sort of thing would lead.

**The Chairman:** It would be more difficult for you with that method of operation.

**Mr. Scrivener:** Oh, I guess once you got used to it it would be about the same!

**An hon. Member:** You got your answer.

**Mr. Jamieson:** I have just one brief question to round out what I was saying about microwave and the two systems across the country. I sometimes get the impression from my business connections in television, and so on, that there is a certain amount of inefficiency, if you like, because of the lack of a relationship between the two microwave set-ups. In other words, I have a feeling that they could probably be employed to better advantage.

**Mr. Vincent:** While there is a novel relationship there are a lot of leases both ways.

**Mr. Jamieson:** Do you have much of a relationship with, for instance, CN or CP with regard to transferring traffic over to their circuits, and vice versa?

**Mr. Vincent:** I think this goes on all the time. Would you like to comment on that?

**Mr. Scrivener:** Yes. We have a number of working arrangements. For example, we have a piece-out arrangement and should they obtain a contract in an area where they have no facilities, we will lease the facilities to them at reciprocal rates and they will do the same thing for us. So, we have a piece-out arrangement. In addition, for diversity we lease facilities from them so that if we lost a microwave route of our own we would have facilities riding on their microwave routes which still would be theoretically operational. So we have a diversity interchange.

**Mr. Jamieson:** Perhaps my question might more properly be directed to the television companies. When, say, CBC buys a block of time from you it does not use all of the time that it purchases. There are gaps and holes in it when the microwave is down. At the same time, say, CTV has a microwave circuit going through with holes in it. I am just wondering why it would not be possible to get a more efficient sort of arrangement in that respect.

**Mr. Scrivener:** I think that technology may do that for us one of these days, Mr. Jamieson. One may have, if you like, broad-band switching, which is as flexible as present voice-method switching, and every second of the transmission channel will be used. Frankly, technology today does not make that kind of switching possible. The full RF channel for a TV signal is so complex that we do not know how to switch it in the way one can switch a voice call because today you might be talking to Vancouver this instant and Mr. Byrne might be talking to Vancouver the instant after on the same facility. It is used up more efficiently because there are smaller pieces that can be fitted together. Some day I think technology will do that kind of thing and then we will be able to use all the segments of available time, or we will be able to search out and find any available segment at any time we may want it.

**Mr. Jamieson:** Thank you Mr. Chairman.

**The Chairman:** Mr. Pascoe.

**Mr. Pascoe:** Mr. Chairman, I understand Northern Electric are coming to give evidence.

**The Chairman:** Let us say that Mr. Vincent said they would be happy to come. We have instructed the Clerk to invite them to come.

**Mr. Pascoe:** Your summary refers to Northern Electric research and states that Ottawa has one of the largest research facilities with 800 people. Would it be of any assistance to the Committee to visit that research centre?

**The Chairman:** Mr. Vincent extended the invitation to me this morning and I would like to discuss it with him later.

**Mr. Vincent:** I think it might help to clear up some of your questions.

**Mr. Pascoe:** That is what I thought too.

**Mr. Vincent:** During questioning this morning, I told the Chairman that we would be very glad to show you through at your convenience.

**The Chairman:** I advised Mr. Vincent that it would be a matter of setting a date and time.

**Mr. Pascoe:** I would like to see the video-telephone.

**The Chairman:** You should have gone to Expo to see it.

On behalf of members of the Committee I want to thank Mr. Vincent and Mr. de Grandpré. I am sure you will have your people here during the remainder of the hearings.

We will now adjourn.

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OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House.*

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament  
1967

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STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

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TUESDAY, OCTOBER 31, 1967

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RESPECTING

Bill C-104, An Act respecting The Bell Telephone  
Company of Canada

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WITNESSES:

*Representing the Industrial Wire and Cable Company Limited:*  
Mr. G. D. Zimmerman, President; Mr. J. G. Torrance, Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Chatwood,  
Mr. Deachman,

Mr. Émard,  
Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Leboe,  
Mr. Lessard,  
Mr. McWilliam,

Mr. Nowlan,  
Mr. Orlikow,  
Mr. Pascoe,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—(24).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

FRIDAY, October 27, 1967.

*Ordered*,—That the names of Messrs. Rock and Lessard be substituted for those of Messrs. Deachman and Thomas (*Maisonneuve-Rosemont*) on the Standing Committee on Transport and Communications.

MONDAY, October 30, 1967.

*Ordered*,—That the names of Messrs. Deachman and Chatwood be substituted for those of Messrs. O'Keefe and Groos on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

TUESDAY, October 31, 1967.

(7)

The Standing Committee on Transport and Communications met this day at 10.05 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Chatwood, Émard, Deachman, Howe (*Wellington-Huron*), Macaluso, Nowlan, Orlikow, Pascoe, Rock, Schreyer, Southam—(17).

*In attendance: Representing the Industrial Wire and Cable Company:* Mr. G. D. Zimmerman, President; Mr. J. G. Torrance, Counsel; Mr. R. A. Smith, Q.C., Counsel.

The Committee resumed its consideration of Bill C-104, An Act respecting The Bell Telephone Company of Canada. The Chairman tabled letters received from AirTel Limited, Dominion Electric Protection Company, Masco Electric Company Limited and the Economic Council of Canada respecting Bill C-104.

On motion of Mr. Pascoe, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*,—That the letters be printed as appendices to this day's Minutes of Proceedings and Evidence (*See Appendices A-1, A-2, A-3, A-4*).

The Committee discussed the necessity of hiring experts to advise the Committee on the legal, economic and technological implications of Bill C-104. It was agreed that the Steering Committee would study this question further.

The Chairman introduced the officials of Industrial Wire and Cable Company and invited the President to present his brief. During the presentation, Mr. Torrance, Counsel, tabled additional exhibits in support of their brief and copies were distributed to the Members.

On motion of Mr. Cantelon, seconded by Mr. Southam,

*Resolved*,—That the exhibit pertaining to Statutes of Canada (1948), Chapter 81, Section 5, be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-5*).

On motion of Mr. Nowlan, seconded by Mr. Schreyer,

*Resolved*,—That the Brief of Industrial Wire and Cable Company and TR Services letter dated October 30, 1967 to Industrial Wire and Cable Co. Ltd. be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendices A-6 and A-7*).

The Committee agreed that it would defer the questioning of officials of Industrial Wire and Cable Company until November 16, 1967 to enable Members to study the evidence which was presented this day.

At 12.50 o'clock p.m., the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*



## EVIDENCE

(Recorded by Electronic Apparatus)

**Tuesday, October 31, 1967.**

**The Chairman:** Mrs. Rideout and gentlemen, I see a quorum. We have before us this morning a brief from the Industrial Wire and Cable Company Limited. Before moving to that I should like to read to the Committee letters which I have received from Mr. A. W. Perser, President of AirTel Ltd.; Mr. R. Y. Atlee, President of Dominion Electric Protection Company; Mr. V. S. Mullin, Manager of Masco Electric Company Limited; and Mr. Arthur J. R. Smith, Chairman of the Economic Council of Canada.

(See appendices to today's Minutes of Proceedings and Evidence)

With reference to the Economic Council of Canada, the Steering Committee discussed calling a representative before this Committee to give evidence on this Bill. I directed the Clerk to send a letter to the Economic Council of Canada requesting them to study and investigate this Bill, let us know their position in the matter and have a representative appear before the Committee.

Gentlemen, could I have a motion that these letters be tabled and printed as appendices to our Minutes of Proceedings and Evidence?

**Mr. Pascoe:** I so move.

**Mr. Bell (Saint John-Albert):** I second the motion.

**The Chairman:** All those in favour?

Motion agreed to.

**The Chairman:** In the light of the letter from the Chairman of the Economic Council of Canada perhaps there should be some comment. It seems that the Chairman cannot help us at this time because they are at present studying part (b) which concerns us—combines, mergers, monopolies and restraint of trade.

**Mr. Bell (Saint John-Albert):** We had better get some help somewhere if we do not get it there.

**The Chairman:** That is right. This brings us a matter that I want to discuss right now. Many members of the Committee have asked me to retain, for the benefit of the Committee, experts on the topic we are now investigating. I would like to put this to the members of the Committee for discussion at this time. Mr. Deachman wanted to open this matter so this morning I shall call on you, Mr. Deachman.

**Mr. Deachman:** I simply want to say what I think I have said before in this Committee. I think the matters we deal with are so technical and the expertise is so heavily stacked on the side of the government, the Crown agencies and the various corporations that must appear before us that I do not think we can do a job effectively unless we retain counsel of our own. When I say "counsel" I mean that from time to time we might want to retain a lawyer, an economist or engineer or some expert of that kind to assist us in the examination of the people who must come before us. For this reason I would recommend, Mr. Chairman, that we look very seriously into the question of employing someone now to assist us in the examination of this Bill.

**Mr. Bell (Saint John-Albert):** I have not given this much thought, Mr. Chairman, but I agree that we must get some advice from outside the Committee and our witnesses, but there are two aspects to it.

I do not think one person is going to suffice. We need someone that can give us legal advice from the over-all combines aspect and we need some engineering advice from the technical standpoint. I realize that is what Mr. Deachman said but both aspects must be covered, in my opinion.

**The Chairman:** You know my feelings in the matter. I think all committees, especially this one in this particular field, should have counsel to assist members of the Committee. Would the Committee leave this in the hands of the Steering Committee to discuss?



**Mr. Orlikow:** Mr. Chairman, I think we need expert advice and I think the Steering Committee should look at it. I am not so sure that we need legal advice. Surely it is the job of the Registrar General Department or the anti-combines division in whichever department it is now lodged. I am not quite certain; I suppose it is in the Registrar General Department.

**The Chairman:** On that point, I should let you know that I have had discussions with the Director of Investigation and Research of the Registrar General Department and they will be before this Committee to give evidence on November 28 next.

**Mr. Orlikow:** Mr. Chairman, I was going to say that not only they can but they should give advice to this Committee. I presume they are giving permanent advice to the government on this and other matters on whether this kind of change in legislation which the Bell Telephone is requesting would or might lead to a monopolistic situation contrary to our laws. However, I am not so certain that we need an engineer because I believe it is the business of the Department of Transport to get the technical information. What I am interested in, and I would hope that the Steering Committee would look at this very seriously, is advice from an economic point of view; that is, what the economic consequences of changes will be if we agree to the changes requested by Bell, and whether or not it will make Bell more efficient. I do not mean "more efficient" in the sense of making greater profits for Bell; I am concerned more in terms of giving service to the people in the area in which they operate. Will it do what some of the other companies which have appeared or are going to appear believe that it will do lessen competition, thereby giving Bell more opportunity to make bigger profits for Bell or siphoning them off into Northern Electric? I think that is the kind of technical information on which we need assistance. Although I am prepared to leave this matter to the Steering Committee, I would like that kind of information rather than the legal information that I think we will get from such people as the anti-combines division.

**Mr. Rock:** Mr. Chairman, Mr. Orlikow posed the question of whether Bell would become a monopoly. I think every public utility company is in a sense a monopoly. The transport commission of any municipal-

**The Chairman:** Mr. Rock, we are now discussing the matter of having experts.

**Mr. Rock:** I am getting so that point, Mr. Chairman. Mr. Orlikow raised the question of whether they should expand in the manner they wish to expand. I think that the record in the past has proven that Bell has to expand with the growing population. We do have to take this into consideration.

**The Chairman:** I would appreciate your getting to the point.

**Mr. Rock:** Mr. Orlikow did mention these things in his preamble; I think I should be allowed to do the same thing.

**The Chairman:** Mr. Orlikow was discussing the type of things that probably should be investigated by expert witnesses.

**Mr. Rock:** Definitely, yes. I feel with the departments that we have right now, the combines branch, the transport commission and so on, that outside expertise is not needed. I do not think we need lawyers or any one else to give us the required information.

**Mr. Cantelon:** Mr. Chairman, I would like to express my view. Mr. Orlikow has put his finger on the salient point, that back behind this whole thing is a philosophical viewpoint which is the basis on which we finally must solve this problem. I do not think we can solve it without doing exactly as he suggested. Lawyers and engineers are not doing to contribute anything.

**The Chairman:** If you will leave this with me I will call a meeting of the Steering Committee immediately and they can go into this topic.

Gentlemen, I should point out that on November 7 the Canadian Federation of Mayors and Municipalities and the Ontario Federation of Mayors and Municipalities appear before us. On November 9 the Northern Electric Company have agreed to appear for questioning. I do not think they will be presenting a brief because we asked that they attend for questioning. On November 28 the combines branch will be here. The Department of Transport has been contacted and we will set a date for them. Also, we have requested the Department of Justice to go into the legal definitions of "telecommunications" and other ramifications of the Bill.

We have with us this morning Mr. G. D. Zimmerman, President of Industrial Wire and

Cable Company, Mr. J. G. Torrance, Counsel, and Mr. R. A. Smith, Q.C., Counsel.

A number of briefs have been forwarded to you by Industrial Wire and Cable Company Limited. The last one, in a brown cover which is the most updated version, has been in your possession for some time. I have informed Mr. Zimmerman, since this brief is double spaced and really contains about twenty pages, that he may read the brief. He will pass over the irrelevant parts and deal with the important sections at some length.

**Mr. G. D. Zimmerman (President, Industrial Wire and Cable Co.):** Mr. Chairman and members of the Committee, Bill C-104, a private member's Bill, I think in the public's eye might be considered of minor importance simply by reason of the words "private bill". However, in our view, and I am sure in your, this is not so. We regard it as one of the major pieces of industrial and commercial legislation that Parliament has been called on to deal with. I personally put it in the category of GATT in so far as it will bear on our segment of the electrical and communications industry. What is determined out of this Bill will be in a way a climate determinate within which our industry, the communications industry, the electrical manufacturing industry, will adjust and develop in the years ahead.

In summary, we view Parliament as being asked in this Bill really to opt for monopolistic enterprise. It is from that point of view, gentlemen, that I think your Committee is faced with a most important and involved matter. It delighted me to hear the interest and views expressed about seeking expertise in this matter because, after all, we are dealing with the largest company in Canada and with major segments of the electrical manufacturing and communications industry throughout the country. Prior to this I felt that your examination would be hampered seriously by a lack of technical and economic support of a staff nature to your Committee. I felt that while we were here we were a weak breed in one sense but a rather unique one in another in that we had been immersed in this matter for five years and, at least in our view, it developed a degree of expertise in several vital areas that this legislation deals with. Our assistance is at your disposal for whatever time you require. From past experience, we think our viewpoint will be somewhat unusual in that it is affected by

direct experience in these matters in the market place.

We have learned to approach Bell's public pronouncements with a sharp eye for pragmatic possibilities. We recognize the Bell as a master of public relations in the soft sell, also in the sidewise drift into preselected positions from which they subsequently have approached Parliament over the years for authorization.

We suggest the Bill is a very interesting example of this approach. I would ask you now to regard it, at least for the next hour or so, through the eyes of Industrial Wire. You have been asked in this Bill for the enactment of the following: authority to increase capital, to have the regulatory jurisdiction to which it is subject "changed slightly", and to have its charter "modernized" in several respects.

I think more precisely what is being asked for is the power to engage in a telecommunications business, the power to acquire any kind of company, the power to raise \$2.3 billion during the next ten years, and the power to issue shares without the approval of the Transport Board. I view this as really a request for a whole new charter—a new ball game.

The Bill is of tremendous importance to Canada and Canadians. Just the financial impact of \$2.3 billion permits the Bell, in its own words, to double its size. Coupled with the right to acquire any kind of company and to issue shares without the approval of the Board, it could develop not only in the telecommunications field but in any other field as well and in virtually any manner it chose. The result of all this would be that the public will be left with a single choice of telecommunications services, telecommunications equipment, and the Bell's rates. Also, the public would be subject to Bell's discretion and its determination alone, and when new services, both their timing, their type and the technical equipment used, would be installed. In short, Bell would be Canada's chosen instrument in this entire telecommunications field.

It is pointed out later in the brief that we think it is essential that Bell's business be confined to its role as a common carrier communications service and that the Transport Board's jurisdiction, staff and budget be expanded to see that this is carried out.



The possibility that Bell could become the chosen instrument in the entire telecommunications field involves a number of interested parties in so far as this Bill is concerned. These include, in generality, the subscribers, the shareholders and competitors of Bell and Northern, but also the users and the potential users of telecommunications as a service and telecommunications material suppliers.

The list of interested parties is extensive. Specific firms which will be or have already been alluded to in this firm would include, amongst others, International Business Machines Company Ltd. of Canada, Honeywell Controls Ltd., Canadian National Railways and Canadian Pacific Railway, Canadian General Electric Co., Ltd., Canadian Westinghouse Company, Ltd., Canada Wire and Cable Limited, Phillips Cables Ltd., Automatic Electric (Canada) Ltd., R.C.A. Victor Company Ltd., Gerald Electronics, Famous Players Canadian Corporation Ltd., Zenith Electric Supply Ltd., Union Electric Supply Co., Ltd., and the Private Communications Industry Association of Ontario. We think that it would be in the interests of the public—certainly it would be helpful to this Committee—to have a representative group of these companies appear before your Committee.

This is unquestionably the stand that I think should be taken with a number of the governmental departments. Certainly Combines, the Department of Industry, the Department of Transport, the Transport Board, the Board of Broadcast Governors, to mention some, are very interested in what this Bill will purport and the impact it will have on the economy as a whole. We also took the view that advice should be sought from the Economic Council of Canada. Further, in view of Bell's widespread activities, there are numerous provincial authorities that, I think, have a direct involvement in this: municipal corporations, in so far as the use of right-of-way where streets are concerned, provincial departments of education, in view of their interest in educational TV, and of course your Committee, with its composition of elected representatives, certainly has an ear to the general public.

Industrial Wire and Cable, as a company, is a shareholder and a subscriber of Bell and is also a competitor of its wholly-owned subsidiary, Northern Electric. For these reasons, we are very much an interested party to these proceedings. Our interest is maybe

more direct in so far as Bill C-104 is concerned because of the implications arising in the name change and the power to acquire the companies that are incorporated in their request.

Maybe we should say just a word about Industrial Wire and Cable Co. Ltd. It is a publicly-owned Canadian company. More than 99 per cent of our 1,200 shareholders are Canadians. Our company owns and operates five plants, eight sales offices and warehouses across Canada, and its products are used in the transmission of power, the construction of homes, apartments and so on, which we refer to as building lines. Industrial Wire and Cable Co. Ltd. and its companies employ approximately 600 people; our sales are in excess of \$20 million a year, and we have had a fairly good record of growth over the past five years.

I would like to stress that we do not manufacture communications cables. We do manufacture building wires and power transmission cables. Out of this our original involvement with Bell grew. We had been for many years a supplier of wire and cable products in our field to Northern Electric which they sold out of their distributor warehousing operations and, for many years, this was a mutually beneficial relationship. However, Northern Electric Company embarked on an aggressive selling campaign, dealing directly with our customers, the contractors and the utilities, and drastically lowered prices on a continuing basis from coast to coast. Northern's pricing reached such low levels that we were convinced it was selling below cost. So quite earthily and basically, our commercial confrontation was a battle for economic survival. Recognizing Northern's size and connection with Bell, if it has and does decide to embark on such a program, it has the economic power to maintain depressed prices for a sufficiently long period of time to bankrupt any company in Canada in the wire and cable business, even the big ones, but certainly ourselves who are one of the small or middle-sized companies.

The unfair advantage of Northern led us to investigate the basic relationship between Bell and Northern and we came to the conclusion, and we are still of that mind, that it is beyond Bells' legal power to acquire shares in Northern Electric. However, I will have more on that later.

It is clear to us that Bell wishes to expand its activities in areas of telecommunications



other than the telephone and to exploit every manufacturing and service advantage that it can. Indeed, by its own admission, Bell can no longer be considered a telephone company in any narrow sense but should be regarded as a communications company. However, only now is Bell coming to Parliament to request the legal power to conduct such activities. These activities will impinge further on the position of the manufacturers of electrical products in which we number ourselves, with the result that in our efforts to present the case of interested parties in general, our Company has been very active.

I should say that I know of no company that has gone bankrupt solely by reason of Bell Northern competition. Consequently, the complaints frequently and generally made in the electrical and communications industry concerning Bell's unfair competition, position and practice are ones that are made in private. Most of the complainants have something to lose by commenting openly. I wish to assure you that our words are our own but our sentiments are almost universally shared by our industrial confreres.

We see the problem confronting the Committee on Bill C-104, from the technical and commercial side, clearly as one of tremendous implications. It is suggested to you, and I think it has already been recognized, that very complex matters are involved. The aims of Bell to stay in the forefront technologically are ones to which we entirely subscribe in its role as a common carrier but we feel these should be reasonably restricted in the public interest. A special act company, enjoying special privileges in the way that Bell is, should certainly be regulated.

We are today looking at Bell's request to engage in telecommunications. Bell is really requesting all-embracing powers. Again we say that this is essentially a new charter in regard to telecommunications. Bell itself has commented in its quarterly review that the word "telecommunication" today largely replaces the word "telephone" as broadly inclusive for our industry. I think we should make it very clear at this point that Bell's industry is the telephone industry. All other telephone companies still subscribe to that, including the associate AT & T which lists at least 20 companies, and they are all referred to as telephone companies of Nevada, Illinois, New York, and so on. Certainly here in Canada telephone companies are very much

an industry that is well, precisely and ably described as a telephone industry.

The word "telecommunication" has been used in this context as becoming all-inclusive. However, I think we use the word "telecommunication", and I suggest that Parliament does in legislation, when they are on the subject of telecommunications. Telephone and telecommunications are interrelated, true, but one is a very much more precise definition of what is involved than the other. Certainly at this point, I think, we are required to differentiate between these two terms because they are far from synonymous. I think to that extent it is logical that Bell will be under suspicion, as it says, for having its Act rephrased with the substitution of "telecommunication" for "telephone" because if this request for word change is granted, I think we should recognize that Bell will be authorized to engage in a business infinitely broader in scope than the telephone business. The request, in our view, is similar to a bus company asking that "mode of transport" be substituted for "bus", thereby allowing it to operate trains, steamships, airlines, spaceships and so on.

A related request, but one of particular significance, is to be found in section 11 where Bell is requesting that it construct, erect and maintain its line or lines of "telecommunication", instead of "telephone", which word appears in the relevant section of Bell's charter, along the sides of and across or under public highways, streets and other places, and I think the implications of this, which we will deal with later, are rather sweeping.

In order to comprehend the significance of the requested charter amendments, I think we should consider the meaning of "telecommunication". In the explanatory notes to section 7 Bell adopts the definition of "telecommunication" which appears in the Canadian Overseas Telecommunication Corporation Act and referred to as:

Any transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electro-magnetic system.

A dictionary definition states in effect that telecommunication means communication at a distance by cable, telegraph, telephone or radio. Obviously, this includes wired conductor systems as well as wireless ones. Again it

is clear that "telephone" is included but also included are telegraph, radio, television, teleprinter, telephoto, satellite uses and so on. We submit that Bell is really asking that it be allowed to engage in a field far wider in scope than the telephone business, in fact one so fundamentally different that it seems highly inappropriate to describe the requested amendment as a "re-phrasing" of its charter. We think, in fact, it is a new charter.

In order to better comprehend the implications of the request, I think we should consider the present and future roles of telecommunication. What is this new and developing business?

I believe that the popular press has pretty well informed us that one of the trends of our time is the degree to which we are in an electronic and a communications explosion revolution. I think one of the things that may not have been borne in upon us is that this is moving from an evolution or revolution in communications, not so much in the office and in industry but really at the home. I would draw to your attention one of the appendices which describes in some detail its effect on business and marketing. In other journals which we have not burdened you with are exciting, and at least in the light of Bell's efforts, disturbing to us, implications of what will go on in homes in the next ten years.

This is where I believe the major impact of this developing evolution will take place because, in short, we are really substituting electron highways for expressways, and events are going to be brought to people rather than people going to happenings. The avenues that are going to be used are referred to as coaxial cables. I have three examples. The potential in these simple devices is really staggering. To reduce it to three pragmatic figures, any one of these three cables will handle approximately 20 TV channels or, alternatively, 10,000 high frequency channels or 200,000 to 300,000 telephone communications.

Their size is not indicative of what they can carry.

We are getting into the technical aspects and if you wish, I will skim it. This is a trunk, and so on. This is what comes into your homes. This conductor, this electron highway, can provide every residence with its choice, theoretically, of this variety of communication length. The service that can

be provided over these communication lengths run the whole gamut from your conventional telephone and entertainment TV to education, marketing, banking, accounting—you name it—and it can be presented in conjunction with your present audio-visual aid, your telephone or your TV set and the events that you would think of going to are brought to you. This, to me at least, is a clear indication of where "telecommunications" as a word and "telephone" very definitely part company. I think the impact on business and marketing is well discussed in the article we did append to our brief, "The Communications Revolution and How it Will Affect Business and All Marketing" by Mr. E. B. Weiss.

I think there is a common denominator to what is happening. The fundamental contribution of the new communications revolution is to put knowledge to work more promptly than ever before, more effectively and over more of the world. Through communication satellites and other remarkable communications breakthroughs it will be possible to communicate with anyone at any time by voice, by sight or by written message. Moreover, all communications will be instantly recorded, retrievable and reproducible. This is not a far-off dream. All of the things we are alluding to are beyond simply the planning; they are demonstratable systems in some parts of the world, already in quasi-economic use, and certainly here in laboratory and initial plant model scale.

However, one thing we are learning is that, because of the rate at which knowledge becomes available as an asymptotic curve, we are merely on the threshold of what the communications fields hold in store for us. Reference has been made to the laser beam for example, and I will not dwell on it, but it, again, has a whole new dimension of possibility. Among the more exciting is the possibility, through the science of holography, of giving us in our homes or offices visual and audible images in 3-D, not on a flat surface but literally in space.

Electronic communication will transform the traditional world of publishing. It will also make inevitable a slow-down in the use of our mails. In a decade, or sooner, large satellites will be in a position to orbit the earth and to broadcast directly to individuals, into their homes.

We should not lose sight of the impact of the computer and its tie-in with communication. Certainly it is going to have one of the



most far-reaching impacts on our social structure, with potentials for both good and, I would guess, for bad. One that I think is getting increasing interest is the educational computer. Here we are looking at the library of the future, the textbook of the future, and possibly the robot teacher of the future, accessible to people in their homes; and this is not the normal business concept that I am alluding to.

Through microwave channels and the appearance of communication satellites there is no longer any technical need for distinction among the various forms of communication. All of these can pass through the same relays in identical pulses. However, I feel that most assuredly there is a need for legal and financial differentiation between these forms of communication. Television, books, magazines, and newspapers will and can be converted into identical bits of energy for transmission over any distance. At the receiving end these electrical signals will be converted back into their original form, or into any desired form.

The effects of electronic communications on the publishing industry are already being seen in a very practical, earthy way, as in mergers between publishing houses and electronic corporations. Here we have Random House and RCA, General Electric combining with Time, Sylvania with Reader's Digest, and so on. IBM, a company in the forefront in this field, is apparently interested not in the book business, as such, but in the educational field, the information field; and the Weiss article outlines that, to control adequately this impact on the public, new federal regulations—and it is alluding to the situation in the United States—will obviously be required in the public interest.

Perhaps the foregoing might be summed up by saying that communication technology is now imposing unity upon all communication techniques. There is no longer any distinction among the various forms of communication. All of them can now pass through the same relays in the form of identical electronic pulses.

What do we think is desirable in this situation? Well, we do think it is desirable to have common electron highways. It is efficient, economically feasible and desirable. We think the uses of this common electron highway should be clearly differentiated, that there should be a communications common carrier system, and that it should be well regulated.

In this context I would like to read at least one definition of what constitutes a common carrier, and this is relating to the transport business: A person holding himself out to transport goods for hire for anyone and not restricting shipments to full loads and whose transport business is a regular and not a casual one is a common carrier.

Now, the test of whether he is really living up to that could be by this rather earthy question: Does he, while inviting all and sundry to employ him, reserve to himself the right of accepting or rejecting their offers of goods for carriage, whether his lorries are full or empty, being guided in his decision by the attractiveness or otherwise of the particular offer and not by his ability or inability to carry, having regard to the other engagements? If the answer is in the affirmative the defendant is not a common carrier.

In this context we consider it most desirable that Bell be defined and regulated as a common carrier; that Bell be restricted to telephone input and output devices; that others be in a position of competing for the best sending and receiving devices in the other uses of this electron highway, having access to it, and on terms that are regulated and controlled by a regulatory board; and that Bell be encouraged to strive for the latest and best in common carrier techniques and equipment.

It appears, however, that by this legislation Bell wants more than the power to provide the network. I ask Mr. Torrance to comment here.

**Mr. J. G. Torrance (Counsel, Industrial Wire and Cable Co.):** Thank you. Mr. Chairman and members, a great deal has been said so far in these proceedings about the powers of the Bell Telephone Company and the effect of Bill C-104. If I might take a few minutes I would like to outline, as we see them, the powers of The Bell Telephone Company, and the implications of what they are asking for at this time.

Bell was incorporated, as you are all well aware, in 1880, as a special act company because, under the ordinary Corporations Act, the Secretary of State has no power to incorporate telephone companies. Now, since it was a special act company and was given a special arrangement to go down public highways with its telephone lines it was also subjected to various limitations. One in particular deals with the investment of its funds



in acquiring shares of other companies—and I will come to that later with particular reference to Northern Electric.

Basically, Bell Telephone itself has the power to provide telephone services and the power to manufacture telephone and other equipment. This was set out in section 2 of its original statute, and fundamentally that has not been changed. Looking at the proceedings of your Committee on October 19 at page 77, Mr. de Grandpré, counsel and Vice-President of Bell, more or less agrees that this, in essence, was the basic authority which Bell had under its original charter, and I am quoting:

...we have the authority, under our original charter, to operate a telephone company and an electrical or electronic equipment manufacturing company.

Now, that, in essence, is the present position with regard to the powers of Bell. I feel constrained at this stage to refer to the remarks of the President of the Bell Telephone Company at page 98 of the same proceedings, and I quote:

We have had the power since 1880 to be in the faucet business, in the belt strip business, in the battleship business; in fact, all the damn things that you want to think of and dream of, but we have not been.

Now, I suppose there are various comments that could be made about that particular statement, but I will limit myself to two. First of all, it is a very sweeping statement, and I submit that it is very wrong. That is the basis of the situation in 1880.

Now we move on to the 1948 amendment. In the additional exhibits that we brought with us today we have provided, and I would direct your attention to, exhibit No. 2, and the wording of section 5 of their statute of 1948.

**The Chairman:** Before we go into these exhibits perhaps we can have a motion to include exhibit No. 2 as an appendix to the *Minutes of Proceedings and Evidence*.

**Mr. Cantelon:** I so move.

**Mr. Souham:** I second the motion.

Motion agreed to.

**Mr. Torrance:** Thank you, Mr. Chairman. In section 5, to which I was referring, it was stated:

...subject to The Radio Act...the Company has and always has had the power to operate and furnish wireless telephone and radio-telephone systems and to provide services and facilities for the transmission of intelligence, sound, television, pictures, writing or signals.

With a view to determining what was meant by that section I would refer you to our additional exhibit No. 3 which contains Mr. Rinfret's introductory remarks on this section in the House. I do not intend to read all of it, but I would like to take a minute just to read the highlights as follows:

...is intended to clarify the Company's powers...

—and we see the word “clarify” again—

...under its original act of incorporation with regard to the use of the latest improvements in the art of telephony, including radio and wireless telephone and television, in providing the communication service which it furnishes.

Examples were given of furnishing service to mobile stations using radio-telephone facilities to connect its wire lines across the St. Lawrence River from Joliette to Sorel, and in providing a radio-telephone service between Leamington and Pelee Island where ice conditions damaged submarine cables. It was also stated that the radio-telephone was useful as standby equipment in the event of storm.

It seems to us that, considered along with Bell's obligation to provide a telephone service, which is set out in section 2 of the 1902 statute, the proper interpretation of section 5 is that those additional powers were meant to be used in connection with the furnishing of telephone service. If they needed radio to get across the river, then that was fine; or if video phone was contemplated—and I gather from some of the material I have read that it was, even then—this is the sort of thing that we think these additional words were meant to cover.

There is another point here. Whatever else may be said about Bell they do not miss too many tricks. They are coming now with the request that the right-of-way power that they have to run their lines of telephone along streets be changed so that it will become a right to run lines of telecommunication along streets. I think it is significant that in 1948 they did not ask that their right-of-way powers be changed. I suggest to

you that one reason for that is that they had the power to run lines of telephone down streets; that these additional powers were for use in connection with their telephone business; and that there was therefore no need to change their powers with regard to their right-of-way.

I could be wrong—my wife thinks I am most of the time!—but the very most that I think could be said about the 1948 amendment is that by virtue of the addition of the words “and to provide services and facilities for the transmission of intelligence”, and so on, they were contemplating the position where, if others came along—the radio industry, the television industry, the cable television industry, or IBM computers talking to each other—the wire network that Bell had could be used; that they would not be in this business themselves, but that it might be economical and efficient to use that for those other purposes; that they were there, and it made sense to use them. I submit that that is the most it could have meant.

Let us assume that is what it did mean. We come to 1967, and we have Bill C-104. I really should direct your attention specifically to the provisions of clause 7 of this bill before you, because there it is said that they would like to repeal section 5 that I have been discussing, and it is stated: “The purpose of this clause is to clarify section 5 of chapter 81...” This is what they want to replace it with. I do not want to bore you by reading all of it, but the words that I have underlined in clause 7, which is providing you with a new section 5, appear in the fifth line from the top, and they are: “. . . to transmit, emit or receive and . . .”. Now, that is one addition that is significant. Then on the seventh line from the bottom we have: “. . . either on its own behalf or as agent for others . . .”. That is on page 5 of Bill C-104.

I just really cannot accept that as an issue of clarification, because with the new section 5 Bell will have the power itself to “transmit, emit or receive” television, and so on, whereas before they had only the power set out in the following words: “to provide services and facilities for”.

So, as I read this, they want it moved from the position of providing the wires to the position where, despite their protestations to the contrary about what they intend to do, certainly they would have the power to get into broadcasting or anything else that is contemplated

by those words; and Mr. Zimmerman has already pointed out the breadth of the meaning of the word “telecommunication”.

Clearly it is for this Committee to recommend to Parliament what powers Bell should have, and I submit to you that whether this discussion that I have tried to lead you into here is right or wrong, the issue still remains: what powers should Bell properly have? Maybe they have all the powers they say they have; but for the reasons given to you, I do not think they have. Even if they have them, I submit it is still up to you to suggest that if that is the case some of them should be taken away. I would like to spend one concluding minute here in trying to outline for you what we conceive to be the scheme of the legislation which involves The Bell Telephone Company.

I have already said that they were a special act company. That means they have, from Parliament, special powers. Nobody who had no power to go down public streets could possibly operate a telephone business. I have also mentioned that they have the obligation, set forth in 1902, to provide telephone service. But I think we should underline here the fact that they do not have any obligation to provide any other service, and that is why Mr. Zimmerman discussed with you what a common carrier is. He has to take all comers; he is like an innkeeper: if you show up at the door and he has a room, he must take you in. I think that is Bell's position with regard to the telephone. But I do not think it is their position with regard to anything else. They want the power to get into other things, but they have not asked that they be obliged to provide them on an equal basis for everybody. In view of that background, regulation obviously was needed for the telephone business because once you get poles down streets you end up with a monopoly; there is no question about that, and I do not think that Bell denies that they are a de facto monopoly.

Let us face it; in Ontario and Quebec they provide all the telephone service fundamentally. The regulation to which they are subject extends beyond rates and covers share issues. I will deal more fully with that later. The idea of this was to ensure that the money they raised would be used for the purposes of their business. There is related legislation which affects telephone companies; for example, the Assessment Act of Ontario deals with the assessability of telephone companies and it is geared to tele-



phone companies and not to telecommunications companies. So it seems to me that when you put all this together you have got a whole fabric, a scheme—a whole ball of wax, to use a vernacular—and it is dangerous to take a piece out of it and give them additional powers without making sure that you have covered all the other bases.

I will conclude by saying that I think there is a matter of fundamental principle involved here and it is very dangerous to extend additional powers to a monopoly where there is no obligation on it to provide further services, nor indeed any regulation of the further activities if they, in fact, get into them. I turn it back to you, sir.

**The Chairman:** Excuse me for one moment Mr. Torrance. Bill S-6, passed by the Senate on May 10 of this year, which consolidated the Interpretation Act, defines "telecommunication" as:

"telecommunication" means any transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electromagnetic system;

which Bell has in their proposed clause, but you are trying to say that they also add, which is extra, "and to provide services and facilities for the transmission..." of these things? Is that what you are saying?

**Mr. Torrance:** No; I am saying that what is extra this time is that they are asking for the power themselves to "transmit, emit or receive" signs, signals and so on, whereas before, in 1948, they were given the power only to provide services and facilities.

**The Chairman:** That is what I wanted to get clear.

**Mr. Torrance:** In other words, at the most it could be said they were asking for the powers to have their lines usable...

**The Chairman:** You were saying they were a common carrier before.

**Mr. Torrance:** Right. Now they are asking for the power to do it themselves.

**Mr. Zimmerman:** Thank you. Continuing, I think the need to limit Bell's telecommunication powers is a very evident one. In the explanatory note on clause 7, Bell states:

The revolution in communication techniques has demonstrated that the Com-

pany can no longer be considered exclusively as a telephone company.

We find this a startling proposition since, by a special act, Bell is described as and is supposed to be confined to the operation of a telephone company. In this explanatory note and throughout its brief Bell refers to its being a telecommunications company. However, under clause 7 and under the proposed amendment embodied in clause 11, Bell is now requesting the authority to become a telecommunications company. As in the case of wireless telephone service, for which Bell received retroactive corporate authority by virtue of its 1948 amendment, Bell is now requesting retroactive authority to legitimize its ventures into the telecommunications business.

Bell also is claiming that in order to remain strong and competitive and thus be an asset to the Canadian economy, it is compelled to meet the demands of Canadians and to supply them with the widest possible range of telecommunication service. In commenting on this earlier, Mr. Torrance indicated that we find this a most startling proposition. Why, to remain strong and competitive as a telephone company, should Bell have to meet the demands of Canadians with regard to telecommunication services, and not simply be confined to telephone services as such? In any event, we question that the so-called demands are directed at Bell. There are many other companies operating in the telecommunications field and if Bell, through its own financial advantages, can operate in the telecommunications field to the detriment of these other businesses that would certainly be an asset to Bell's economy, but it is most doubtful that it is going to be an asset to the Canadian economy as a whole—certainly not to us competitors.

As already pointed out, Bell has stated in the explanatory note to clause 7 that the word "telecommunication" has been defined by Parliament in various statutes in quite a broad way and accordingly the evolution of the industry has been recognized. While this is true it does not follow for an instant that because there has been an expansion in the telecommunications industry Bell, which was incorporated as a telephone company and as such given tremendous advantages, should be allowed to engage in all facets of this industry. What do communications need in the fields of "data" or "facsimile" referred to on page 15 of Bell's brief? What is the connection there with the telephone business?



An interesting comparison which is helpful in deciding to what extent Bell should be allowed to engage in activities outside the telephone business is found south of the border, because the Bell-Northern relationship in Canada is very similar to—in fact, almost identical with—the former relationship between AT & T and Western Electric. In particular, the same conflict of interest with the private free enterprise sector of business was experienced in the United States as we are now experiencing in Canada.

Many of the problems facing us today were solved in the United States by virtue of the Consent Decree entered into between the United States, as Plaintiff, and Western Electric and American Telephone and Telegraph as Defendants, in 1956, pursuant to a complaint filed under an act to protect trade and commerce against unlawful restraints and monopolies. We have included a facsimile of this Consent Decree in our submission this morning, as we think it has direct application in the present situation in Canada.

The conflict between Western Electric's role as a manufacturer to the operating telephone companies and as a manufacturer and supplier outside the regulated field was eliminated when Western Electric agreed to limit its activities fundamentally to manufacturing equipment for companies of the Bell system, and for use in furnishing common carrier communications services for government. Similarly, AT & T agreed to refrain from carrying on directly, or indirectly through subsidiaries, any business other than furnishing common carrier communications services.

Both companies, that is, the AT & T and Western, undertook not to act as distributors of equipment manufactured by others. They also agreed not to enter into agreements with any independent telephone operating company under which that company would be required to buy any equipment from them. Just as an aside here, it is a very interesting practice in Bell marketing to put together package deals where Bell technology and engineering expertise, which is highly desirable to independents, is tied to the use of their manufactured products. So we have a restraint imposed by this Consent Decree in that regard. They also agreed not to acquire any business involving the manufacture, distribution or sale of equipment useful in furnishing common carrier communications services unless, on application to the court,

permission was granted upon showing that the effect of such acquisition would not be substantially to lessen competition nor tend to create a monopoly.

The whole import of these agreements, restraints and so on, was to confine the AT & T to its monopolistic role as a common carrier and to draw a clear line between the regulated and the unregulated sectors of the communities. Without that, regulation really becomes so difficult as to be meaningless.

Western Electric was further ordered to maintain cost accounting methods, and since it was not, as Northern is in Canada, a regulated company as such, by this agreement it undertook to maintain and has maintained records for the use of the regulatory body. These are submitted on a periodic basis showing the breakdown in cost, selling prices, return on capital investment of the product category which they are manufacturing for AT & T. They break out the Bell business and the other business which is mainly government, and they show byproduct grouping the total selling price, the mark ups, the return on investment, the entire measure of what this business means in their complex. Western has agreed to and has followed that practice for a number of years. This is the position which we urged on the Transport Board at the recent hearings when they went into the rate base with Bell. However, the Board did not adopt that view.

Finally, the Defendants, AT & T and Western, agreed to grant non-exclusive licences on Bell patents to anyone making application therefor on a fair and equitable basis set out in the Decree. Conditions are spelled out to ensure fair and non-discriminatory licensing arrangements. The concept underlying this—and I suggest it is an appropriate one—is that the funds which underlie the Bell Lab and other research are coming from the subscribers and the rates set by the public, and this technology and patent pool should be available to the public on fair terms and the royalties applied back into the earnings of the AT & T to reduce the net cost to the telephone subscribers. As a businessman reading this Consent Decree, I was rather titillated to see that the amount of space and conditions set on patents was as great as, or greater than, for all the other conditions with which the Consent Decree dealt.

In summary, the result of the Consent Decree was to confine the group activities to the manufacture of equipment for, and the provision of services in connection with, the common carrier communications business; and it very effectively prevented the spread of the monopoly position from the regulated area to the unregulated area, and certainly simplified the task of regulation and protecting the public interest.

In contrast, Northern manufactures and distributes a wide range of electrical products from coast to coast, and these products encompass the full spectrum of electrical contractors' supplies from screwdrivers, etc., to wire, conduit, fire alarms, etc. By comparison this distributor business dwarfs that of any of the independent electrical distributor outlets. In addition, it enjoys the vast purchasing power of Bell, which makes its impact felt in the marketplace.

The principal products manufactured by Northern in support of its electrical supply operation are wires and cables. Certainly in the past these have formed loss leaders in connection with large tenders. This is the business which bears directly on us and has a very real impact on the interested parties that we referred to earlier as presumably having information of use to this Committee. If Bell were given the right to engage in the entire telecommunication field this situation would be aggravated and the number of interested parties would certainly be expanded.

Bell has a further practice that would spread into the entire telecommunications field if these powers are extended. This is the one known in the trade as the imposing of Bell standards and the exclusion of foreign equipment from physical contact with their system. Now, in effect, Bell has engineering and manufacturing standards, actual specifications for their own manufacturing and service organizations. Generally speaking, these are good industry guidelines. However, unquestionably they are biased towards Bell's designs and manufacturing techniques. They are not necessarily the last word in engineering, in every instance. Nevertheless, relying on this code, Bell is now the final arbiter in deciding what equipment will be used, how it will be installed and by whom.

The impact of this policy already falls on a wide range of service companies and manufacturers dealing, amongst other things, with paging systems, sound systems, mobile tele-

phone, telegraphs, teletype and, in short, anyone with a direct involvement in service or equipment that has to have contact with Bell's communication network. Now, the everyday impact of this probably falls heaviest on the private communications industry where any tie between their equipment and Bell is, as a general policy, verboten. If, for example, Eaton's had an internal communication system and wanted to run it from one store to another the great likelihood is that they would not be permitted to have a tie line over Bell. In other words, Bell is a so-called common carrier, but would not lease a line to put someone else's PBIX in one place or a loudspeaker in another. The company would have to arrange their own tie line down the street, or across the property. Equally, the impact is felt on new building construction in which the designers, architects and so on are constrained by the fact that when they put in communication ducts it is for Bell and no one else. Great problems are encountered by those who find that where Bell is no one else can be. There is no appeal from this, and there are obvious constraints and disciplines open to Bell, such as the withdrawal of service or the removal of equipment, which none but the largest and most aggressive are going to confront. These types of unassailable positions will be greatly expanded if the telecommunications envelope is spread over Bell's whole operation.

One last point to consider before granting Bell Telephone entire telecommunication power, as opposed to telephone power, is the following: Bell has, for some years, by its own admission, been engaged in the telecommunications business and indeed now considers itself a telecommunication company. For example, large sums of money have been spent for a number of years by Bell in maintaining extensive field and laboratory installations in regard to satellite activities. Presumably this investment has found its way into Bell's rate base and will therefore be reflected in the rates paid by Bell subscribers. However, Bell at this stage does not have the corporate power to engage in this activity.

It is submitted that the foregoing indicates that Bell's power should be carefully limited rather than extended to allow it to engage in the entire telecommunications field.

On the other hand, we feel that Bell should have every possible power to keep in the forefront as a telephone company and to be



in a position to develop and use modern technology. We feel that Bell already has such power, and if it does not it should be given such power. In other words, Bell should have telecommunication powers for use in the development of its telephone business, but not for use in regard to other business.

For example, in 1948 Bell was given the power to operate and furnish wireless telephone and radio telephone systems, and we feel that it is entirely appropriate that Bell should have whatever powers it needs to develop its telephone system in the best possible manner; but, like AT & T, it should be confined to the telephone business.

Would you like to deal with the next section, Mr. Torrance?

**Mr. J. G. Torrance (Counsel for Industrial Wire and Cable Co.):** The next point we would like to deal with is the special position of Bell's statutory right-of-way. Earlier I attempted to point out the difference between telecommunication lines and telephone lines. It is our feeling that Bell, by using its telephone right-of-way for other purposes, is presently exceeding its corporate powers. That being the case, we take some exception to the suggestion that, in the Bill, for the sake of consistency, they want to change the word "telephone" to "telecommunication", with regard to their right-of-way. We believe that it is more for the sake of legality; that they do not have the power to use their right-of-way for telecommunication purposes; and that it should not be so used.

With regard to their right-of-way, Bell's right to erect poles along public streets was a privilege granted by Parliament in 1880. It was a special privilege. From the practical point of view it is the location of the poles and not their intrinsic value which creates the monopolistic advantage that Bell has over other people. This monopolistic advantage arises from the privilege granted by Parliament on the theory that the general availability of telephone service is in the public interest. We took the trouble to obtain a copy of the brief which Bell presented before a predecessor of this Committee in 1948. If I may make just a brief reference to that, at page 66, dealing with this subject, Bell points out that it was in the public interest that they were obliged to provide telephone service. Perhaps I may just quote. Having dealt with the obligation to give service, which

appears in the 1902 Act, which says in effect that the Company shall furnish telephones of the latest improved design and so on, Bell says:

This enactment which was no doubt passed in the public interest, imposes a definite duty upon the Company to furnish telephones and telephone services upon demand with all reasonable despatch.

Bell agrees that it was in the public interest that this power originally was granted. Our suggestion is that Parliament should not permit this special advantage to be abused because, after all, it was given in the public interest in the first place, nor should Bell be permitted to extend its monopoly. We feel that the present Bill could lead to Bell having a monopoly to carry much more than just telephone messages, which it presently has.

There is one point in our brief with which we are not entirely satisfied, and we certainly want to be careful not to mislead this Committee. It has to do with the cost to Bell of using the public streets. We can speak only about the position in Ontario under the Assessment Act and Municipal Act because unfortunately we are not familiar with the position in the Province of Quebec. However, I think it is fair to say that the municipal assessment picture in the Province of Ontario is sadly out of date. Apart from the taxation of land and buildings it is broken down into two sections—cities, towns and villages on the one hand and townships on the other. In the case of cities, towns and villages, telephone companies are assessed for 60 per cent of the amount of the gross receipts from all telephone and other equipment belonging to the company located within the municipal limits of the city, town, village, or police village. The assessment base is 60 per cent of the gross receipts.

If the city has a population of 100,000 or more the assessment base is 75 per cent of the gross receipts. There is a limitation set forth within the Assessment Act to the effect that despite all of the foregoing the maximum amount of the tax which may be imposed is 5 per cent of the gross receipts.

Perhaps an example would be of assistance to you. Let us say, for the sake of easy reference, that the gross receipts of the telephone company in a city with a population of over 100,000 is \$100 which is a nice, easy



figure. The assessment base would be \$75 because it is 75 per cent of the gross receipts. However, the maximum that the tax could be is \$5 because it is limited to 5 per cent of the gross receipts.

**Mr. Rock:** This is more or less a sales tax?

**Mr. Torrance:** This is a municipal assessment—land and buildings on the one side and telephone equipment on the other. This is the assessment on telephone equipment. Therefore, the tax is limited to \$5 in the example I gave you. Depending on the mill rate, there is an excess in regard to which the Company does not pay any tax. If the mill rate is 100—and that is almost precisely what the commercial mill rate is in the city of Toronto now—that would be 10 cents on the dollar. In the example I gave you, that would lead to a tax of \$7.50, because it would be 100 mills on the assessment base, which was \$75. However, because of the maximum of 5 per cent of the gross receipts, the maximum tax in that case is \$5. Therefore, \$2.50, which ordinarily would be taxed, is not covered. That is the situation in cities with a population of 100,000 or more and having a 75 per cent tax base.

For cities with populations under 100,000 the situation is worse, because the tax base is 60 per cent. The picture with regard to townships is much bleaker from the point of view of the municipal taxpayer because although, with regard to cities, towns and villages, it is a fixed rate of assessment in the case of townships it is a fixed assessment of \$1.35 a mile for one circuit for carrying messages, and it is \$7.50 for each additional circuit. Now, this again is a tax base against which you apply the mill rate. You can see that it is very, very low.

I will not do any more arithmetic. It was touch and go whether I would get through that. As one example, let us take cable TV. First of all, there is a question in my mind whether it is taxable at all because what the assessment act deals with is circuits used for carrying messages. Messages have to go two ways, but cable TV is unidirectional and goes only one way so there is a question whether it is taxable or not. One of the township assessors to whom I spoke said, "They would be crazy if they did not pay tax on the cable TV because they have such a marvellous deal and they should not try to upset it." On the big cable, which Mr. Zimmerman showed you earlier, the price that Bell charges cable TV

operators according to our information, is about \$2,323.20 per month. When the assessment base for municipal taxation on a cable of that sort is \$135.00, or if it is the second one it is \$7.50, against which you apply the mill rate, I think they would indeed be unwise to try to upset that.

The difficulty with this statute, of course, is that it is so dreadfully out of date and the assessors have great problems because they say, "Look, we do not know what is underneath the sheet. Let us face it. There could be any number of circuits. We cannot effectively police it." It is true they have access to their premises but there is a lot of involved electronic and complicated technical data and, frankly, they just cannot cope with it. I think there is a valuable source of revenue there which is available to the municipality. It seems to me it should be fully exploited but under that set-up it is not. I think this should again give rise to some true concern with respect to whether the telephone company should be allowed, in any event, to use this right of way for other than telephone purposes, which they are requesting, unless, among other things, you make sure that the municipal taxpayer gets a proper shake.

**Mr. Bell (Saint John-Albert):** Would you care to put a broad estimate on what monetary advantage you would get out of this?

**Mr. Torrance:** I can give you the exact figures and I should have given them to you earlier. I got the figures from the city of Toronto on the amount of tax they feel they lost because of this assessment. There are always two sides to a story. I think in fairness you have to bear in mind that some of these assessments are based, say, on 1940 values and while the values have gone up the assessment base has not and therefore the disparity is corrected by increasing the mill rate. That is not a complete answer and not every municipality uses old assessment bases, and so on, but in any event the city of Toronto was very upset about it and they have given me the figures which they claim they were in effect done out of by virtue of this ceiling. In 1964 it was \$455,000, in 1965 it was \$726,618, in 1966 it was \$1,103,780 and in 1967—frankly, I do not know how they got the 1967 figure but it is such a nice big figure I am delighted to quote it—it was \$1,853,654. This is what a city the size of Toronto, which gets a better deal than a city with less than 100,000 population, is losing.

In any event, this is according to their figures.

**Mr. Schreyer:** Mr. Chairman, would it be in order to ask for clarification on one point? I would like to know, sir, if the revenue which Bell receives from the leasing of lines for cable TV or unidirectional messages, as you put it, is included in its gross receipts for purposes of real property taxation?

**Mr. Torrance:** I can only repeat what the assessors told us and they could not tell. They have no reason to believe that it is not but they really could not tell because the prescribed returns that telephone companies file with them are, I think is fair to say, not terribly illuminating. They can look at the return, and it sets out gross revenue, but in fact they could not tell whether cable TV income was included, and they think the reason for this is why should the company try to avoid paying it when it is such a small amount anyway. However, there is the question of whether it is a circuit for carrying messages, and I think it is also fair to say there does not seem to be too much technical information readily available to the various assessment departments. I do not know the extent to which they communicate with each other. In other words, I do not think there is any directive which sets out, "For your purposes this should be considered as a circuit for carrying messages." I just do not know that.

**Mr. Chatwood:** Mr. Chairman, are we not getting outside of the Bill when we are discussing municipal taxes?

**The Chairman:** No, we are not, Mr. Chatwood.

**Mr. Rock:** I would like to have some clarification on this, Mr. Chairman.

**The Chairman:** We will continue with the brief. Yes, Mr. Rock?

**Mr. Rock:** You touched on the subject matter of lines but not on the real value of property and machinery. You skimmed across that. Do they also assess in Ontario all their buildings and the machinery within the buildings?

**Mr. Torrance:** I did not mean to skim over it. I believe I said introductorily that apart from the assessment picture on land and buildings there is also the additional picture which has to do with telephone equipment.

As far as I know, with regard to land and buildings, Bell is assessed as any home owner.

**Mr. Rock:** I am glad you clarified that because in your written brief you appeared to skim over it. You left the impression that Bell did not pay any tax whatsoever.

**Mr. Torrance:** This is why I wanted to make it clear when I started that we were not going to mislead the Committee. I think my introductory remarks were to the effect that we were a bit more innocent, if you like—or I suppose Bell could say we were guilty—

**The Chairman:** Mr. Rock, the only thing that is being discussed with respect to assessment is telephone poles.

**Mr. Rock:** I understand that, but the way it is written makes it appear as if there were no tax whatever on it. We could assume this is what you meant at the time and that is why I have some questions on it regarding the Province of Quebec.

**Mr. Zimmerman:** We would still stay with the CATV interest, and this is not because we have any particular brief for that industry but in our view the CATV coaxial cable is the visible part of the iceberg with respect to where this communications evolution is leading in its impact on our homes. In our view, paid TV entertainment which comes into each house over this cable is simply the forerunner of many other services. I think the CATV operations are generally recognized, so it is a good analogy to use. In this connection it appears that Bell is attempting to control coaxial cable uses and to take over as much of the field as it can, and it is in that area that we have a philosophical concern that while they may control telephones, as we are sure they do, and quite properly, that they will end up controlling CATV and, in time, all the other many uses that this electronic highway to my house and yours will represent.

Our concern again is one which is reflected from the market place and in which any independent CATV operator wishing to install a system must negotiate with Bell for the use of its right-of-way, and there is frankly no other economic alternative route. There are other routes. We have utility poles, or in theory a man might buy his own link, but I come back to economic routes, practical economic routes. The Bell is unquestionably



the logical communication right-of-way. The easements they have been given are in the right location, the poles are there, the drop lines, for telephones, and these other services make them by far the most desirable.

The position of an independent in negotiating with the Bell is a most unequal one and we have been interested in reading some of the contracts which have been entered into on an individual basis by some people in Ontario who have dealt with the Bell. I think it is fair to say, at least in my experience, that these are the most one-sided contracts and certain aspects of them bear very heavily on restraint of trade. I point to the use to which a cable may be put. The operator gets a cable which it is clearly stated is installed by the Bell for his use and he is constrained to use it simply for the one-direction transmission of signals. Here we have a plant that is put up entirely at the operator's cost at this point. Bell can advise him in the future that they are going to put it to other uses and arrange for a financial adjustment, depending on how it goes, but in this instance it is there; it is his, he has paid for it but he does not own it. He is the only person on it, and with all the tremendous capacity of this electronic highway he is contractually restrained from using it for other than just entertainment. If he wants to send a message back or have an educational exchange between two points or use it as part of a link between a man's computer, or for any other use, he is cut off. He has broken his contract and it is then terminated without any right of appeal.

There are some other impacts to this situation which place the independent negotiator in a most uncomfortable seat. The connection of other wires, cables, and extensions to it is something which is only done by mutual consent and therefore if Bell does not give consent it is a one-way street. The technical evaluations on how it may be installed and dealt with are, in the main, in the final analysis subject strictly to Bell's approval as to whether it is being done right, at the right time, with the right procedure and with the right connection. No one but Bell can really discipline this contract.

Another unfair element is that if an independent should elect not to go this route he faces the very clear and, I am told, well-vocalized implication. "If you go that route we will over-wire you", which is a nice way of saying, "We will put in a competing sys-

tem". The clear indication is that you had better deal with us, and your assurance of the market is then assured. The alternative to this is what takes place in the United States, where the same common carrier concept that we are promoting has been in effect for some time, and in that area the common carrier role is overseen by a regulatory body so that when independent cable TV people make application there is a scale of rates and a scale of regulations. The board maintains engineering supervision and there is a court of appeal in cases of unreasonableness. The contracts in some jurisdictions are individually approved by this regulatory body so that the public interest, according to the size of the community, is thereby given the opportunity of having the free enterpriser decide that he is willing to risk his money and put in cable TV. The common carrier who has his electronic highways installed has the rate set, he can plan his business, he knows what he has to meet, he is assured of excellent service, his contract is negotiated and at least in most jurisdictions the regulatory body approves it as being fair. I think—and again I am not making a case for the CATV operator—the request to get into the telecommunications field underlies our real concern as to where the market and the impact on the public is coming from. I come back to the as yet unrecognized potential of these coaxial systems and what they are going to mean to your business, to mine, our homes, educational systems, you name it; our whole social structure is going to find that this type of avenue is our information exchange base.

I was intrigued by an editorial which we have included in our brief. I will not quote it entirely but merely refer to an excerpt on this point which I think is well phrased. It is taken from the *Canadian Telephone and Cable Television Journal* of March of this year and it reads:

Now, the giant Bell is casting its eyes in other directions. They have applied for a new charter so that they may expand their operations. Where will it end? At this juncture, we say to Bell, beware—if your size and power permits you to restrict development of other enterprises, one day your own operations may be considerably controlled and restricted—to allow free enterprise to develop on a fair competitive basis—as one expects in Canada.



Mr. Torrance, would you now discuss the acquisition powers?

**Mr. Torrance:** The next part of our brief that we would like to discuss is that section having to do with the power to acquire other companies. We spoke quite a bit this morning about the telecommunication powers which the Bell is requesting. We would now like to deal with section 8 of Bill C-104. We have had a lot to say about this in the past and I will not take too much time with it now, but under this section Bell is asking for the power to purchase or otherwise acquire shares in any other company having objects in whole or in part similar to those of this company or in any company engaged in research and development work in areas of inquiry that relate to the objects of this company.

In our view one result of that is that Bell could rest easily from now on if they received that power in regard to what we still believe are improper purchases of shares of Northern Electric Company. Another very important aspect is that with this power they could acquire, either directly through subsidiaries, or indirectly through subsidiaries of those subsidiary companies, any kind of power whatsoever.

Let me just expand briefly on that. If Bell were given the power to acquire a company the chances are that that company would be an ordinary letters patent company which, fundamentally, would have very broad powers, could engage in any kind of business and could also acquire any kind of subsidiaries. Once you get past the first stage, from then on that line of subsidiaries can acquire, by purchase or otherwise, any kind of subsidiary that they want.

Bell stated in their brief that it is important to have a strong research and development sector fully integrated with operations and manufacturing. We can believe that is indeed very useful for them, but it does not follow that they should have the power to acquire any other kind of company to accomplish that purpose.

They claim on page 3 of their brief that "The ownership or integration"—you will notice there is a difference—ownership or integration of manufacturing facilities is an essential requirement for the provision of good service. We would not really have any objection to this, if Bell and Northern were restricted as AT & T and Western are, as Mr. Zimmerman outlined to you earlier. Then

you may have integration, but it does not go beyond the proper scope of their business.

Bell say at pages 50 and 51 of their brief that power to acquire other companies is needed due to the possible unavailability of foreign research. Again, we do not see that they need separate companies for this.

They also deal with the investment powers of letters patent companies and they quote from section 14 (e) of the Canada Corporations Act. Again, I would like to stress the difference between a letters patent company and a special act company. A letters patent company can, fundamentally, do almost anything. Special act companies are given special purposes and are meant to confine themselves to those purposes. The part of the Canada Corporations Act which relates to special act corporations, as against ordinary letters patent corporations, is found in section 194 which reads:

No Company shall use any of its funds in the purchase of shares in any other corporation unless insofar as such purchase is specially authorized by a Special Act.

That is the section which has always been referable to special act companies, limiting them to buying shares only in those companies, for which they are given special authority in their original charter or as it may be amended.

They say that they would like to have the power to invest in other companies in related research to ensure the possibility of access to the valuable scientific and technological developments of others. In our opinion that is very often available by agreement and indeed, in view of the Consent Decree, which Mr. Zimmerman has already read, it is clear that AT & T must grant licences of its patents to others; and Bell acknowledges in its own publications, including the *Blue Bell*, that they do have access to the AT & T patents by virtue of that. It seems to me, therefore, that the fundamental place for somebody to go for telephone technology is to AT & T, and it is available; plus the fact, of course, that they have the service agreement with the AT & T under which they pay annually an extra \$5 million which provides them with reasonably good access to AT & T.

Why should they then obtain the power to acquire companies for research? There seem to be these other ways of obtaining access to research, and if you give them this power

then they get, together with the company's research activities, whatever else the company is doing. If it happens to be making battleships then Bell thereby can get into the battleship business and there would be nothing at that stage to stop them.

**Mr. Howe (Wellington-Huron):** I am rather intrigued with the reference to section 194 on page 23, where you speak about Bell getting into Northern Electric. When Bell began to buy into Northern Electric did anybody object?

**Mr. Torrance:** No one objected, so far as we are aware. The first objection as to the legality of those purchases was raised by Industrial Wire.

**Mr. Howe (Wellington-Huron):** When was this? How long was it after the initial transactions had taken place?

**Mr. Torrance:** That is a long story.

**The Chairman:** Perhaps it would be better to defer that until we return to the general question period.

**Mr. Howe (Wellington-Huron):** It intrigued me.

**Mr. Torrance:** I am going to deal with it a little more fully in a minute, and perhaps I can anticipate some of your questions.

**Mr. Howe (Wellington-Huron):** That is fine.

**Mr. Torrance:** In conclusion, I want to read from a textbook an excerpt which seems to me to have a particular bearing on the matters before you.

Integration across the competitive-regulatory boundaries should be prohibited, both because it may spread monopoly from the regulated area to the unregulated one, and because it complicates the task of regulations.

As a typical example of the problems that have been experienced in the Bell-Northern relationship there is the question of whether Bell is getting a proper return on its investment in Northern Electric. Another popular question has been: Is Bell paying Northern too much for the products that it buys from Northern? Mr. Zimmerman has referred to the systems accounting which Western Electric is obliged to follow in the United States, which is calculated to have Western demonstrate its costs, so that you know from those whether the price is comparable. If Bell is

allowed to get "n" number of other companies you are alternately going to have the same problem of making sure that the relationship is appropriate.

This may anticipate some of your remarks, sir, because I propose to deal with the proposed section 8 and the existing situation with regard to Northern Electric.

Northern engages at the moment in many activities outside the telephone business. We mention a couple of examples. They have just brought into production a wire and cable plant in Calgary, and as Appendix B to our brief we have copied an advertisement which Northern Electric put in *Electrical Business* in March of this year. The caption of the ad reads as follows: "Northern's 'supermarket' would have made sure you did". The statement was: "You thought you had it in stock." There is a woebegone-looking gentleman who is "out" of something here. Northern "supermarket" would have made sure that he had this thing.

We carry 15,000 stock answers to your supply problems of Wires and Cables, Wiring Supplies, Illumination and Lamps, Power Apparatus and Switchgear, Electrical Tools and Equipment. It only takes one call to Northern Electric Company Limited.

What we fear, of course, is that if you enact section 8 you may have supermarkets of various kinds creating the same sorts of problems.

In Bell's *Quarterly Review* for the summer of this year reference was made to a concern that has been voiced that Bell might invest directly or indirectly in companies whose aims and endeavours are quite unrelated to the telecommunications industry. It was then stated that this seemed to overlook the fact that Bell has had such powers since 1880 and has never abused them.

We think that that is open to question with regard to Northern Electric.

I would also make reference to the judgment of the Transport Board at the hearings held in 1963, at page 14, because I think this matter should be met head on and dealt with. The judgment of Commissioner Kirk reads as follows:

Under present day conditions the right of use is inherent in all persons and companies.



He was discussing the right to use telephone communications.

While the applicant...

That was Industrial Wire.

...poses a condition of absurdity which may occur...

We were saying that if anyone gets the power to use communications by means of the telephone then there is no limitation on Bell because Bell then can get any company.

While the applicant...

—Industrial Wire—

...poses a condition of absurdity which may occur it is clearly hypothetical. It is of significance that the powers of Bell in this respect have not been availed of in the intervening 83 years of its corporate existence other than in respect to Northern.

This, of course, is the whole point. It was not hypothetical. It had been done. The reason for our being there was to argue about the position of Northern Electric.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, could we have made available copies of those decisions that are pertinent to this matter?

**The Chairman:** Yes, Mr. Bell. I will ask the Clerk to see that copies of the Board of Transport Commissioners' decision in these hearings are made available.

**Mr. Torrance:** It is our contention that it is not correct to say that Northern's endeavours in many respects, have not been quite unrelated to the telecommunications industry. For example, what connection has the sale of white goods—which Northern at one stage was engaged in—with the telecommunications industry; or the sale of screwdrivers, electric light bulbs, and fire alarm systems?

**Mr. Howe (Wellington-Huron):** Could you explain what you mean by "white goods"?

**Mr. Torrance:** We mean refrigerators, stoves and the like. They are not in that business now, but they were; and I have quoted from the advertisement some of the things that they are in now, which, in our view, are not related to the telephone, or, indeed to the telecommunications business.

**Mr. Rock:** Were these sales to their own employees, in most cases? Were they not just from their own company store?

**Mr. Zimmerman:** No. The Leonard line of goods was made for them. It was a brand name which they supported. It was open to the public for purchase, Mr. Rock.

**Mr. Torrance:** With reference again to Bell's *Quarterly Review*, there it was stated that the Supreme Court of Canada and the federal Cabinet maintained the Board's decision that Bell had the power to own shares in Northern Electric.

We want to set the record straight in this connection. Industrial Wire applied for leave to appeal to the Supreme Court of Canada from the decision of the Board of Transport Commissioners. Leave to appeal may not be granted except on a question of law, and it was refused Industrial Wire, presumably on the ground that there were also questions of fact involved in the issue.

We then appealed to the Cabinet, and that appeal was dismissed without reason. We have no idea why that appeal was denied. When we appealed to the Cabinet we asked—

**Mr. Rock:** When did you appeal to the Cabinet?

**Mr. Torrance:** It was about 1964. I am not sure at the moment of the precise date but I can get it for you.

The fundamental request in our appeal to the Cabinet was that the Cabinet refer the matter to the Supreme Court because we felt that an issue of this importance should be heard by the Supreme Court, whether or not more than strict questions of law were involved. We still feel that this is a very important matter. If Northern is not to be confined, we still think that this particular reference should be had to the Supreme Court of Canada. In a memorandum which is appended to the brief we set out to members of Parliament the implications of Bill C-104. We would urge that you re-read it in the context of our presentation today, so that you will have a better feel for the implications.

In view of some of the representations made before your Committee last week, I would like at this time to spend just a couple of minutes to deal with the power to invest in other companies in light of Bell's submission. Bell is given power to invest, fundamentally, in two types of companies, companies possessing as proprietor a line of telephonic communications or companies possessing any power or right to use com-



munications by means of telephone. I would like to read to you from Bell's 1948 brief to the predecessor of this Committee, and I will paraphrase it a little bit: The Bell Telephone Company was incorporated by Act of Parliament assented to on April 29, 1880, just four years after the telephone was invented.

At that time, there were a few small local telephone companies located in some of the larger centres in Canada, such as London, Hamilton, Windsor, Montreal, Toronto and Quebec. These were purely local systems having few subscribers and were not connected with each other. One of the purposes of the incorporation of The Bell Telephone Company of Canada was to bring these small local organizations together into one integrated system permitting of the subscribers in one locality being able to communicate with those in other localities.

To this end, The Bell Telephone Company of Canada was incorporated with power to extend its operations throughout Canada and to purchase existing systems.

By the end of the year 1881, the Company had purchased or acquired "all other existing telephone interests in Canada".

Now that I think gives a pretty clear indication of what the power was meant for in the first place.

I would like to read the comments of Mr. de Grandpre at page 78 of the proceedings before you on October 19:

I believe that to-day, it could be said that every individual or every company has the right to use the telephone. Therefore, strictly speaking, we could invest in any kind of company. But, since 1880, we have never gone outside of telephone operations or of our Northern operation. What we ask for, in fact, is the authority to diversify our investments.

And then reading further down:

Therefore, instead of being limited to shares, we ask for the authority, under Section 8, to invest, not only in shares, but also in stocks, bonds, debentures, all kinds of securities, always in companies operating in related fields:

Now as far as I am aware, there is no restriction on Bell now buying bonds of other companies, for example, so I submit that is not the reason that they are asking for section 8.

I also refer you to the explanatory note that appears opposite section 8 on page 5 of the Bill itself, which says:

The proposed amendment is designed:

To broaden the Company's power to invest in other companies having objects in whole or in part similar to those of the Company and calculated to advance the objects of the Company; and

To enable the Company to invest in organizations carrying on research and development work related to the Company's objects.

I think it is very wide authority, and I think it involves more than just clarification. I think it is, again, a new ball game, as Mr. Zimmerman stated.

Now really, when you reduce that limitation in the way that Mr. de Grandpre suggested, I think it leads to an absurd result because there would be no limitations at all on their investment in other companies and this runs counter to the general philosophy of what special act companies should do. Now we made this very argument, that that would lead to an absurd result, before the Board of Transport Commissioners. Again, from the same judgment as I quoted from earlier, I would like to read the following:

Counsel for Bell claims that if the result were as above stated it is within the permissive powers of the Statute but that it is within the competence of Parliament to remedy any undesirable results by legislation.

Now I submit to you, gentlemen, that this is where we are. This is where we all came in. If that restriction is as meaningless as it has been contended—which for one minute I do not accept but even if it could be argued that it is—Bell's own suggestion before the board, when we raised this argument, was that if it is too broad Parliament can fix them. So we would respectfully exhort you to do just that if there is any question that there is no limitation the type of other companies which Bell can obtain.

The other aspect of their power to invest in other companies centres around the words "possessing as proprietor any line of telephonic or telegraphic communication". I

would like to read you what Bell's line is as found by the Board of Transport Commissioners. I am reading from page 8 of the same judgment—and they quote from Mr. Scrivener's evidence as to the line:

The location of this telephone line has been changed from time to time, of course, as have the facilities. For some years now, however, it has been located between our company's plant at Belmont Street in Montreal and the principal manufacturing premises of Northern Electric Company Limited on Shearer Street, in Montreal. Our records show that there are two wires in a cable between these points which have been tagged as the property of Northern Electric Company Limited. This line is connected to a private branch exchange in the Shearer Street premises of Northern Electric Company Limited and a private branch exchange in the Belmont Street premises of Bell Telephone. It is only used for messages emanating from Shearer Street and destined for Belmont Street. It is not used for connection with lines of telephone other than those located at the two addresses I have just mentioned, Shearer Street and Belmont Street.

Upon cross examination Mr. Scrivener stated that the two wires now in use were replacements of those originally established; that such replacement included their carriage in a cable instead of overhead; that the location of the terminals had been changed from time to time; that the cable is owned by Bell; that the ownership of Northern of the two wires is preserved by an identifiable tag as are all wires in the cable so identified; that the switchboards to which the Northern line is connected are the property of Bell; that Bell's charge to Northern for such line is solely for its maintenance; and that the distance covered by the Northern line is approximately 19,000 feet.

Now Darwin would have been delighted because here is the missing link, gentlemen. Here is a multiconductor cable; this is what they are talking about. Here are the typical two wires which have been tagged for identification. This runs under the road in the cable which Bell has and this is what holds Northern Electric and Bell Telephone together. We submit to you that that does not

constitute a line of telephonic communication within the meaning of the statute but the Board did not agree.

There is another problem. When Bell has been given the power to acquire companies possessing a line of telephonic communication, Northern itself is prohibited from being in the telephone business. I would like to refer you to Exhibit 5 because I think this is most interesting. Exhibit 5 is a copy of the Northern charter—it is at the very back of our additional exhibits—and because it was a little hard to read the part we have circled in red we have it typed out on the last page. You will see from this, I believe, that Bell was well aware that what they were obliged to get was a company with a telephone line or they would not have the authority to buy it. And you will see that what they applied for in their application was a company with various powers, including the power to purchase any telephone, telegraph and so on, plants, works, lines or apparatus, and then they put in a proviso because they were aware of the problem in the Companies Act. The proviso that was put in said:

...provided that such lines of telephone and telegraph are operated only on lands owned or controlled by the company.

Now as the Secretary of State is not empowered under the Corporations Act to incorporate an ordinary letters patent company in the telephone business, this request of Bell for that particular power was stricken out, but somebody was alert in the Secretary of State's office, as it then was, and put in the proviso which is responsive to the prohibition in the Corporations Act. The proviso says:

Provided that this section shall not be deemed to authorize or empower the Company...

That is Northern Electric.

...to carry on the business of a telegraph or telephone company, or to construct and work telegraph and telephone lines.

So that was the situation, and this was the argument that we put before the Board. I would like to read to you from page 15 of the judgment:

Northern is admittedly not doing business as a telephone company but the facts which have been developed indicate clearly that Northern owns a line as proprietor; that it does not operate it;



and that it makes no offering of service to the public.

In my opinion the line owned by Northern is a line envisaged by section 4 of the Special Act...

So you have the rather curious position that Bell can only take over telephone companies; that Northern is prohibited from engaging in the telephone business but, nevertheless, Bell was empowered to purchase Northern shares. This is another example of how we see this whole scheme of legislation. Special act companies in the telephone business were meant to be confined to the telephone business. By virtue of the operations of Northern they do not confine themselves to the telephone business and unless, in our submission, Northern is restricted in the way Western Electric has been restricted in the United States. Bell should not be allowed to continue its holding of Northern shares, and certainly no further power should be given to Bell to allow it to buy other types of companies than telephone companies. Otherwise the regulations cannot work.

**Mr. Rock:** What year was that judgment?

**Mr. Torrance:** It was in 1964.

**Mr. Rock:** And when did Bell purchase Northern?

**Mr. Torrance:** It is dated January 13, 1964. Bell purchased shares of Northern by degrees. Western Electric originally had, and I am speaking from memory, 46 per cent and Bell had 54 per cent; then Bell's holdings with Northern increased until a few years ago when they got the final remaining 10 per cent of shares that Western had.

**Mr. Rock:** What year did Bell first start buying the shares of Northern?

**Mr. Torrance:** They incorporated Northern in 1914. I would like now to deal quickly with the power to raise additional funds. I do not want to read all of what we have in the brief. I think it is common ground that what Bell is asking for is sufficient money to in effect double its size over the next decade, and we would like to ask certain questions in this regard.

Bell states that there is a demand for new developments—and we appreciate that there is a demand for new developments such as special circuits for the transmission of data—but we question that the demand is directed exclusively at Bell. We also think

that it is questionable whether Bell, with its monopoly position and huge resources, should be allowed to engage in such business in any event.

Now we do not have any valid comment with regard to the amount of money they are asking authority to raise but we are very keen that steps be taken to ensure that this money is only spent for its proper purpose. And this leads to the question of control of Bell in general and, in particular, regulatory control and I would like to pass this back to Mr. Zimmerman at this stage.

**Mr. Zimmerman:** In looking at who controls Bell, the largest company in the country, I think it is fair to say that it is certainly not under the control of its shareholders. They are probably the largest and most widely held stock in the country and while shareholders' meetings are large in general comparison there is no meaningful group amongst them who can control this company.

We would assume, however, that perhaps the directors would control Bell; there are 17 and it is a most illustrious board, but as you look at the outside directors, at least, they are identified as company directors, executives, lawyers. A more particular examination showed well-known figures in the financial field; a trust company, a steel company, a chemical company, breweries, a large educational institution, a paper—its lawyers. Now, these men are all very expert and well informed in their respective fields but it strikes me that other than the inside directors—the inside ones—no electrical engineering, no electrical manufacturing participant, no communications representatives are here.

My personal assumption is that this company is very definitely under the control of a technical bureaucracy within its own management group and I think the concern all of us share, as I find in industry they share, is the meaningful relationship between AT & T and the Bell. After all, this represents far and away the largest block of shares—2.2 per cent—an investment of approximately \$35 million. This relationship exists in day-by-day operations and, even more significant, in the service contract, the technical ties, the engineering arrangements between the respective systems. That there is a meaningful relationship, of course, is borne out every day.

I see AT & T were quite prepared to comment on this Bill and Bell's position on it,



reporting in the *Wall Street Journal* very much in terms of identical phrasing with what we have seen in Bell of Canada's publication. I think these are the questions: who is in control of this company? Who is making its day-by-day decisions? Who says, we are going to buy a telecommunication company or get into battleships and so on? Where do these decisions lie? Who makes them? Who can question them? Who arbitrates? Who withdraws service and who gives service?

As Mr. Torrance has pointed out, this company has one obligation—to provide telephone service, and I think many of us in commercial fields have forgotten it even had that obligation because we listen with both ears when they say they are going to pull our phones if we do not do something. In all the other areas of telecommunication they have no obligation to the public other than what the management and, I suggest, the "in management", decides is appropriate. So I think these facts must be borne in mind when assessing the validity of Bell's claim to be a truly Canadian company controlled by residents of Canada. Well, I think all of that is literally true but it is a pretty small group of the residents of Canada and it should also be born in mind that Bell's competitors are Canadian in every sense of the word and the Canadian public, if they broaden beyond the telephone field, will have no voice in the impact that this giant will have on their affairs.

Well, we look in terms of monopoly—government approved de facto monopoly—to something to replace competition. In the competitive side of the business we have the combines branch, a very active discipline, besides our competitors. However, we must look in the case of Bell strictly to the regulatory body and I think it is fair to say that the Board of Transport Commissioners' performance to date has left much to be desired in this regard. Frankly, I was much intrigued to hear Bell witnesses insist that the Board have proved difficult. In fact, on one occasion they said that the Board had actually said, "no" to them. I do not think they could recall the date but in reading the record I found that the Board had not said "no" but the Cabinet had reversed the Board and said "no", and that apparently upset the Chairman of the day and he resigned. My view is that this Board had been woefully understaffed and woefully under-financed. It has made various studies from time to time and

in this regard I think has some of the built-in limitations this Committee was faced with when it started the study that you are out to correct and that is to get expertise, independent of witnesses, to help you to assess what you hear and put a relative weighting on it.

**Mr. Rock:** Mr. Pickersgill is going to fix all that.

**Mr. Zimmerman:** The effectiveness of the tests that have been put by this Board on the selling prices from Northern to the Bell have been questioned by competent accounting witnesses appearing for the municipalities, for us and, I believe, for others. The cliché has developed that if Northern sells to Bell at prices as low or lower than they sell to anyone else, all is well. Without developing the economic basis for this, such a rather superficial approach was long since abandoned in the FCC approach to the AT & T in the United States. I think even concerning that statement, evidence which we put in front of the rate hearing a year ago was never investigated in that they have a further condition or wish to insert one that in Canada this is the case, because we cited situations where Northern was selling in the export market telephone sets, cable and so on, at prices substantially below the price that we held was the price to Bell and this was never refuted, never further discussed. It just disappeared.

In the inter-pricing relationship the approval and acquiescence of the Board has, from a business point of view, very little weight to it in my opinion. We have dealt with this Board since 1961 or 1962 and I have failed, and our people have failed, to identify a single engineer, a utility expert, an electronic technician—in short, any expertise to weigh the evidence that is presented to them. It comes in beautifully documented by the Bell team and men who are very competent I am sure in their respective fields—which I believe are almost invariably law; there is one man who has been on rates I understand in the railway, but no one from the electrical, electronic communications field—hear, listen and rubber stamp and I think this is essentially what we have had so-called "in the public interest" to date.

Now, Industrial Wire were urging the Board to follow this procedure outline, at least a philosophical outline adopted in the United States during the recent hearings, and we were really just flabbergasted to read when the judgment came down that on the

evidence we had submitted they had held subsequent meetings with only Bell present, presumably, and made the decision:

We have been persuaded that further evidence should be presented by Bell, so as to furnish the Board with an additional check upon the reasonableness of the general level of prices paid by Bell to Northern. We therefore requested Bell to provide us with a break-down of Northern's return and capital devoted to Bell business and on capital devoted to non-Bell business. Such a break-down was furnished to us and we have examined the methods and procedures used in its preparation.

Now, this breakdown and its review was never brought out into the open for cross-examination or a contribution by any of the other interested parties. It was accepted, presumably, at face value and the rate hearing was decided on that basis. Surely we feel that this is a most unsatisfactory way for a regulatory board to operate whose role is to provide that discipline which competition does in the non-monopoly element and protect the public interest. We find its procedures, its staff, its whole mode of operation totally inadequate to the task confronting it.

**The Chairman:** I am glad to know that I am not the only one who feels that way.

**Mr. Zimmerman:** We found, of course, the judgment of the Board with respect to the legality of the ownership of Northern's shares rather surprising, to say the least, and Mr. Torrance has already dealt with that. We feel that rather than limiting the regulatory jurisdiction over Bell the effectiveness of the existing jurisdiction should be greatly increased. The new Board should have a greatly expanded budget, expert staff and be adequately equipped philosophically and in these other areas to confine Bell within the bounds prescribed by its special Act, in no way to harm, but to support its role as a common carrier.

In addition the new regulatory authority should have an opportunity to review Bell's position periodically, not on Bell's initiation alone and, accordingly, its jurisdiction with regard to the approval of share issues should not be removed.

**Mr. Torrance:** Mr. Chairman and members, I should like to take a few minutes to outline what the United States Federal Communica-

tions Commission deals with. First of all its jurisdiction includes the general field of communications and their 1966 annual report to Congress dealt with such topics as satellite communication; microwave; CATV systems; broadcast, including educational broadcast; TV; FM and AM; safety and special radio and common carrier, including telephone and telegraph.

Now, the transport board here is not at present engaged in that broad a communications field but it deals or will be dealing with matters completely unrelated to communications, notably transport by railway, air, water, motor vehicle and commodity pipeline. This is what is outlined in the new Act. That is a very broad jurisdiction and it seems to us to give the Board a very difficult problem. The new National Transportation Act, which established the Canadian Transport Commission, was in essence an act to define and implement a national transportation policy for Canada and it contemplates that the Commission, in performing its duties, will establish certain committees which are railway, air, water, motor vehicle and commodity pipeline. There is nothing on telecommunications as such at all and we understand that it will be dealt with by the railway committee which, perhaps, is not to give this subject the degree of expertise and consideration which, in view of the implications of telecommunications, it deserves.

Concerning staff, the FCC's total staff is 1,500. It has four special bureaus which are the Broadcast Bureau, the Safety and Special Radio Services Bureau, the Field Engineering Bureau and, the one in which we are interested, the Common Carrier Bureau which is concerned with the regulation of all domestic and international common carriers as well as the Communications Satellite Corporation. The average level of employment in that bureau was about 160 and they had experts of various kinds, even attorneys. There were engineers, economists, public utility experts, and so on.

As for its budget, that one bureau had a budget in 1967 of \$2 million so what it boils down to, it seems to us, is that unless the Canadian Transport Commission is given broader jurisdiction, more staff and a higher budget all directly brought to bear on a function like that performed by the FCC Common Carrier Bureau, the Commission will not be any match for Bell. We are not suggesting that the Canadian Transport Commission should have the same numbers or as high a



budget as the FCC, but certainly it has to have infinitely more than it has now. We set out on page 34 certain areas in respect of which we think the activities of Bell should be examined. It is trite to say just in concluding this one aspect that the bigger the company and the more it has to regulate, the tougher the job.

Now a word about regulatory control with respect to share issues. Bell has dealt with this aspect of its act in various ways. One quote is that this is a request for the elimination of a now obsolete and unneeded step in the regulatory process. It has been described in another way as being a change in mechanics. The explanation is that originally Bell was authorized to earn so much per share. But in 1966 the Transport Board adopted a new method of earnings regulation based on rate of return on total capital and therefore as a result this particular facet of regulatory control was no longer necessary.

We take great exception to this conclusion. We think that the jurisdiction of the Board covers ensuring that the money Bell raises is to be used for the purposes, objects and undertakings of the Company. That includes seeing that the money already raised has been used for those purposes and that the additional stock to be issued will also produce funds for that purpose. If I might again make reference to Bell's 1948 brief at page 66 it points to their obligation to give service. They say:

This enactment, which was no doubt passed in the public interest, imposes a definite duty upon the Company to furnish telephones and telephone service... It is because of this duty and of the Company's desire to discharge its obligations under it that it has petitioned for the enactment of Bill No. 8.

They say what they ask Parliament to grant is the following:

First, the power to create, with the approval of the shareholders, new authorized capital

That is one of the things you are being asked for now.

Second, the right, having the required authorized capital, to go to The Board of Transport Commissioners for Canada from time to time and try to satisfy it of the property of making an issue of a specified amount of such authorized

capital and of the price, terms and conditions upon which it is to be issued;

And a further reference which is relevant and interesting in the same brief is at page 72 where it states:

The granting of the authority to increase the Company's capital as prayed for does not leave it to the Company to issue and dispose of the new capital as it sees fit. Reference has already been made to subsection 2 of section 1 of the Bill, which re-enacts the provision that was contained in Chapter 93 of the Statutes of 1929 and deprives the Company of the power to make any issue, sale or other disposition of its capital stock without first obtaining the approval of The Board of Transport Commissioners for Canada of the amount, price, terms and conditions of such issue, sale or other disposition of such capital stock.

It is respectfully submitted that this subsection 2 fully and amply protects any and all public interests that might be involved.

At the conclusion of the next following paragraph it is stated:

By this Bill, the Company is asking the authority to permit it to go out from time to time after satisfying The Board of Transport Commissioners for Canada of the propriety of doing so to raise the necessary capital to enable it to discharge its duty to the public.

Its duty to the public is to provide telephones. If it needs money for that and it has to have the money for that there is no question about it. It has, in its own words, to satisfy the Transport Board that it is not spending money to discharge its obligation to provide telephone services to build battle-ships, that term having been used.

So we think, in view of some of Bell's past activities, that it is of paramount importance that this particular head of jurisdiction of the Transport Board not be removed. Quite the contrary; if there is any question as to the powers the Board should have, they should be given more power. If they need more money, and we think they do, they should have it. They need expert staff. Mr. Zimmerman, I will turn it over to you to wrap up.

**Mr. Zimmerman:** We are concerned here with parliamentary control since that is the final and absolute court to which specialized



companies such as Bell have to come for their regulation. We have already dealt with many of the objects and the threats we see. Our views are based on the conviction that Parliament should never grant a company such as Bell, which has already very special statutes, the corporate power to engage in a very wide range of activities together with the financial means to do so and then to abdicate jurisdiction over the company for as long a period as ten years. I think that that is exactly the situation you are in, recognizing that the present regulatory body is so ineffective that in my view, it truly almost means abdication if you implement this Bill and then leave it to that body to approve.

Actually I think we are saying that approval of this Bill as it has been requested is tantamount to supporting unregulated monopoly.

I think the social impact of the telecommunications industry is recognized by all of us close to the industry. Bell certainly recognize it. Their publications emphasize this. An excerpt appearing in Bell's brief at page 22 states:

Telephone service, which is rapidly broadening into complete telecommunications service, is now, and will increasingly become, woven into the fabric of our Canadian society.

I have no argument with that. The recognition of that and seeing that this totality of services with telephone is the only one that they are obligated to provide and that in the rest they will be the dominant and unregulated free entrepreneur is what makes our concern as great as it is.

It is crystal-clear that Bell believes telecommunications will play an increasingly fundamental role in every aspect of Canadian life just as we have indicated in our brief. I think this underscores the need for Parliament to keep in close touch with developments in this dynamic field. Frankly the field of technology is the one which is moving by several multipliers faster than any other.

In our view Bell should be obliged to return to Parliament periodically for further mandate and for review by a knowledgeable committee on a more or less regular basis. I think it is implicit in the role of Parliament that it protect the public interest in a real sense. Under that public interest we have the entrepreneurial sector of our economy. We have the individual multiplicity of choices

that should be available to the man in the street—all of this consistent with reasonable economics of scale. I think it is in this area that we find the Bell to have the really valid and recognizable argument that a common carrier, in the real sense of the word, is entitled to and should have everything necessary to make his electron highways the most modern and efficient. We support that posture. It is when it breaks out of the highway and the inputs and outputs to this electronic highway become other than telephone that our concern becomes very real. Bell made certain comments on its benefits to Canada. I think we all recognize these. It may be a little presumptuous in assuming that the wages it pays have a greater impact on our economy than the wages I pay and vice versa. However, I will not dwell on it.

I am very much concerned with the monopoly aspect. While we have touched on the cable TV operators—I would remind you again that our reason for using this example was that it was a forerunner to the many services that their present link to our homes will entail—I have no brief for CATV as such. It is just the first service to be presented to us in this way.

There are other areas in which the monopolistic and unfair practices have a bearing on our electrical and communications industry. Comments have been made in editorials which we have attached. We will not dwell on them other than to say that for those who are presumably in a position to know, Bell's tactics appear to them to have a policy of depressing rural telephone rates of independent companies to the point where they have difficulty in making a fair return. Presumably this leads to take-overs at prices more favourable to Bell.

It also seems to be the case at the present time, as has been going on in the Maritimes, for instance, that wherever Bell acquires a new telephone subsidiary which, prior to acquisition, purchased from equipment suppliers, electrical distributors and various other service companies, after The Bell takes over, it becomes extremely difficult for these independent businessmen to get any further business.

It is my interpretation that this was the fear which prompted the Government of Nova Scotia to take the action it did in limiting Bell's voting power on the shares of the Maritime Telegraph and Telephone Company. They stated, at least by inference, that

local suppliers in that area were concerned and that they needed protection.

A further instance, I think, arises in the letter which we have appended to our brief—supplementary to our brief. This letter just came to hand in the last day or so. I think it is self-explanatory. It is in an area that is important to many of us in business. It is quite explicit in that in certain areas, lines for off-premises equipment connecting between adjacent or remote buildings are denied by The Bell. They fear Bell's interjection into the background music business where they are now dependent on lease lines and may find that they can no longer lease these lines. They are concerned that The Bell Telephone was not the introducer of the teletype system but entered that field later rather than sooner and are concerned that this might be indicative of their actions if granted powers to engage widely in the whole field of telecommunications.

**The Chairman:** Excuse me, Mr. Zimmerman, for a moment. Perhaps this is a good time to have this letter from TR Services Limited of October 30, 1967, as well the brief of the Industrial Wire and Cable Company printed as appendices to our Minutes of Proceedings and Evidence.

**Mr. Nowlan:** I so move.

**Mr. Schreyer:** I second the motion.

Motion agreed to.

**Mr. Rock:** Do you mean the additional exhibit or also the main brief?

**The Chairman:** Also the main brief because it has been skipped.

**Mr. Rock:** But do they agree that this is actually their official brief?

**The Chairman:** That is what they say here, Mr. Rock. Mr. Zimmerman, please continue.

**Mr. Zimmerman:** In summing up our concern with the monopolistic unfair trade practices section of Bell, we also refer again to our own experiences in confronting Northern's competition—their practice of selling products competitive with ours at prices which we believe are less than Northern's cost.

These examples underlie our grave concern in Bell's asking for power to engage in the telecommunications business and to take over any kind of company, to raise huge sums of

money and to have one of the basic heads of jurisdiction of the Transport Board eliminated—all this to be superimposed on the basic Bell-Northern structure which is that of a government-created monopoly with a guaranteed fair return on total investment. On that basis Bell could completely dominate any sector of the business it chose.

It is submitted that your Committee should seek and obtain representations from the Restrictive Trade Practices Commission. I understand from being here this morning that is already under way. We would also like to have you consider in a general way the connection given to Bell that it should deal with its patents and its patent rights. I spoke on this earlier in the Consent Decree in the United States. I think we should recognize that Bell's research activities are financed fundamentally from the payments of the telephone subscribers, which rates are government-set. The result of the research, however, is preserved solely for Bell despite the fact that it was in essence the public at large which financed it. And to the extent of course that it is allowed to engage outside the common carrier role, this research then is a direct benefit to that unregulated sector. If it is going to be confined within the common carrier role then its patents should be licensed to bring in income and it could make a contribution toward the telephones rates.

We have no objection to the section dealing with Bell's name change. We think it might be appropriate since it has already used the name so widely.

In conclusion, we would make the following recommendations:

Bell should be in a position to provide common carrier telephone services of all kinds, and we underline telephone. In this regard it should be able to make use of any telecommunication developments it sees fit.

Bell should not be permitted to engage in telecommunications in other respects. The telephone input and output should be the deciding discipline with which its role as a common carrier is decided. It should then have to accept, and the Board should see that this is done in a fair and equitable way, the inputs and outputs of other telecommunication services that would be coming from the private sector.

To the extent that it is efficient to use Bell's rights-of-way for other telecommunications purposes, this should be allowed but on the condition that appropriate financial



arrangements are made and that Bell does not control the input or output of the "electronic highways" except in respect of its own business, the telephone business.

Bell should confine itself to the telephone business and should not be allowed to acquire any other kind of company. Northern should be prohibited from engaging in any activities other than those strictly related to the telephone business. We are reasonably disinterested in the Northern share issue if such a regulation were involved.

The way should be paved for Bell to raise funds that it requires from time to time but only for the purposes of the telephone business which must be carried on strictly within its corporate powers, and of course under the approval of the regulatory authority.

Parliament should ensure that Bell is obliged to appear before it regularly at intervals of much less than 10 years.

Governmental regulation of Bell's activities should be strengthened to ensure that Bell carries on its telephone business within the scope of its powers and in the public interest while at the same time allowing it all reasonable latitude to develop along the lines set forth in the first paragraph.

The Transport Board should be granted sufficient power, staff and financing to enable it to provide truly effective regulation.

We feel that failure to implement the foregoing recommendations will lead to Bell's becoming the chosen instrument in every aspect of telecommunications in Canada. This would be inevitable in view of Bell's existing communications networks established on public property, its guaranteed profit on its invested capital, its tremendous purchasing power and the benefits of its subsidized research. Bell so armed could set its own prices and effectively prevent competition from the private sector and this in turn would forestall the extension of telecommunication services.

Bell would be virtually unassailable and uncontrollable. This would be an ironical result when you consider that Bell was formed in the first place through the realization that a common carrier telephone service was desirable in the public interest. Thank you.

**The Chairman:** Thank you, Mr. Zimmerman, Mr. Torrance and Mr. Smith. It was our intention this morning to hear the brief and

then commence questioning. However, having discussed this further with representatives of each of the parties represented here I do think, in light of the very extensive brief and the very extensive addition to that brief, and bearing in mind the study that will be required by members of this Committee, that rather than commence questioning, which may continue for another day, we should set down another date for questioning. This will allow sufficient time for members to read the printed Minutes of Proceedings and Evidence. Is that agreeable?

**Mr. Schreyer:** Mr. Chairman, I suggest that before studying the submissions it would be a great help if members were allowed at least one question in order to focus with greater precision on that particular aspect of the submission that they consider most important.

**The Chairman:** Mr. Schreyer, the difficulty we have is that it is 12:50 o'clock and we are going to adjourn at 1:00 o'clock and I do not think it would be fair to allow one or two members to ask questions and not the others.

**Mr. Bell (Saint John-Albert):** All you are doing is postponing the questioning to another day.

**The Chairman:** To another day because we could not finish the questioning.

**Mr. Bell (Saint John-Albert):** I hope the witnesses agree.

**The Chairman:** I have discussed this with the witnesses and, they have agreed. The intention was to hear the Canadian Federation of Mayors and Municipalities and the Ontario Federation of Mayors and Municipalities on November 7 and Northern Electric on November 9. However, in the light of circumstances it was felt that we should postpone Northern's appearance until the questioning of Industrial Wire and Cable Company was completed. The witnesses have agreed to return here for questioning on Thursday, November 16. Then the Northern witnesses could appear on November 21, and we would leave November 28 for the combines branch of the Department of the Registrar General. I will check with the members of the Steering Committee to see if we can have a meeting this afternoon after Orders of the Day, or even tomorrow, to discuss other matters. Does that meet with your approval?



**Mr. Nowlan:** Could the Clerk send a note around after the Steering Committee meeting showing the suggested Committee meetings?

**The Chairman:** Yes, I will see that that is done. We do have the Department of Transport to come yet, and we have not finalized their date. The Department of Industry also is being contacted. Is that agreed?

**Some hon. Members:** Agreed.

**Mr. Émard:** Mr. Chairman, I would like to have a French translation of the Minutes of Proceedings and Evidence.

**The Chairman:** That is why we are delaying these proceedings until November 16. At that time we will have the minutes in both French and English available, Mr. Émard.

It is agreed we adjourn.

## APPENDIX A-1

## AIRTEL LTD

Toronto, Ontario

Head Office: 11 Greensboro Dr.

Toronto (Rexdale) Ontario

Telephone: 249-8455

September 13, 1967

Standing Committee on Transportation  
and Communications,  
c/o House of Commons,  
Ottawa, Ontario

Att: Mr. Joseph Macaluso  
Chairman

Gentlemen:

This letter has reference to the application by the Bell Telephone Company of Canada for extension of their existing rights in the field of Communications.

It is our understanding, from the Bell Telephone Company, that their submission to the Committee is to clarify their right to purchase Companies in allied communications fields. We are not opposing this application as

such. Our reason for this letter is to advise the Standing Committee that there are other Companies in the same business as Bell Telephone Company. Whether these Competitors happen to be small independantly owned Telephone Companies, or Radio Communications Companies like Airtel Ltd., we feel that whatever decision is made, the same rights be given to competing companies.

Airtel Ltd. is developing under licence and approval of the Federal Department of Transport, a competing network of Radio Communication towers across Ontario and Quebec. We are only interested in protecting our rights as a Canadian Company from any possible domination by the giant Bell Telephone Company of Canada, as a result of powers granted to them by decisions of the Standing Committee on Transportation and Communications.

Thank you. I am

Yours respectfully

A. W. PERSER  
President

## APPENDIX A-2

DOMINION ELECTRIC  
PROTECTION COMPANY

Toronto, Ontario

May 29th, 1967.

Honourable Robert H. Winters,  
Minister of Trade & Commerce,  
Ottawa 4, Ontario.

Dear Mr. Winters:

Bill C-239, now pending before Parliament requests among other things a broadening of the Bell Telephone Company of Canada's powers to invest in other companies. The Bill goes on to describe the reasons for needing an extension of corporate power and discusses the current aspects of telecommunication services which it says Bell must be able to supply.

Dominion Electric Protection Company has operated in Canada under Parliamentary

Charter since 1924. We render an electric protection service to thousands of subscribers throughout the eastern and central part of the country and maintain offices in major Canadian cities. We are dependent upon wire facilities supplied by the Bell Telephone Company and other private or publicly-owned telephone companies to carry alarm and supervisory signals between our central stations and our customers' premises. We have always been prepared to pay published tariffs for these facilities. However, beyond that, our business is totally unrelated to the telephone business and deals in services for the protection of property and human life.

Bill C-239 appears to release the Bell Telephone Company of Canada from the original intent of its Charter and in broadening its corporate powers allows it to go into competition with others in a variety of fields. In so doing Bell could bring its large financial capacity into play with considerable effectiveness.

We are strong supporters of free enterprise and realize the privileges and benefits of good competition. We do not support Government approval of a situation where special concessions are made to one or more without a thorough understanding of what these concessions may mean.

We recommend that careful consideration be given to the implication of Bill C-239.

Sincerely yours,

R. Y. AtLee,  
President.

#### APPENDIX A-3

##### MASCO ELECTRIC COMPANY LIMITED

Hamilton, Ontario.

March 1, 1967.

Mr. Joseph A. Macaluso,  
House of Commons,  
Ottawa, Ontario.

Dear Sir:

As you are no doubt well aware, there is before the House at this time a Private Members Bill relating to an application by the Bell Telephone Company of Canada to increase its authorized capital.

I have no particular quarrel with this Bill as it relates to the Bell Telephone as such. However, as you know, the Northern Electric Company is a wholly owned subsidiary of the Bell. The Northern Electric Company competes, in the fullest sense of the word, with me and the Company I represent, in the Electrical Distribution field.

Again, as you are probably aware, the Industrial Wire & Cable Co. Ltd. have, for several years, voiced their objection to the Bell Telephone—Northern Electric relationship, and once again they have registered their objection to the Bill before Parliament in its present form. As my representative in Ottawa, I wish to go on record that I support the stand being taken by Industrial Wire, and I would ask that you give their views your thoughtful and serious consideration, since on reflection, you will unquestionably recognize that there are iniquities opposite the Bell—Northern relationship in its present form as it relates to the area of business which is so important to me and my fellow employees. Thanking you in advance for your consideration in this matter, I remain,

Sincerely yours,

V. S. Mullin,  
Manager.

#### APPENDIX A-4

##### ECONOMIC COUNCIL OF CANADA

Ottawa, Ontario

October 27, 1967

Mr. R. V. Virr,  
Clerk of the Standing Committee  
On Transport and Communications,

House of Commons,  
Committees and Private Legislation Branch,  
Ottawa, Ontario.

Dear Mr. Virr:

Thank you for your letter of October 24, 1967 drawing my attention to Bill C-104, An Act respecting The Bell Telephone Company

of Canada which is under review by the Standing Committee on Transport and Communications.

As the Committee members may be aware, the Government in July 1966 asked the Economic Council of Canada to undertake a broad comprehensive inquiry into the economic aspects of competition policies and some related matters in the Canadian economy. Specifically, the reference asked the Council to study and advise "in the light of the Government's long-term economic objectives:

(a) the interest of the consumer particularly as they relate to the functions of the Department of the Registrar General;



(b) combines, mergers, monopolies and restraint of trade;

(c) patents, trademarks, copyrights and registered industrial design."

The Council presently has under way a comprehensive programme of study and research into the matters raised by this reference. In the course of this research we expect to be considering, among other things, the relationship between competitive and regulated industries in Canada, a topic which in a sense embraces the particular subject before the Standing Committee. As this body

of analysis becomes available to the Council over the course of the next year and a half, the Council will be preparing a report, or possibly a series of reports, to the Government reference. But, as Chairman of the Council (if I were called before the Committee) I would not be in a position at this time to anticipate the conclusions of the analysis or of the Council itself.

Yours sincerely,  
Arthur J. R. Smith,  
Chairman.

#### APPENDIX A-5

##### 11-12 George VI, Chapter 81 (1948)

The Section of this Statute dealing with wireless and radio-telephone is Section 5, which reads as follows:

Wireless  
and radio-  
telephone  
services.

5. It is hereby declared that subject to the provisions of *The Radio Act, 1938*, chapter fifty of the statutes of 1938, and of any other statute of Canada relating to radio and radio broadcasting and to the regulations made thereunder, the Company has and always has had the power to operate and furnish wireless telephone and radio-telephone systems and to provide services and facilities for the transmission of intelligence, sound, television, pictures, writing or signals.

#### APPENDIX A-6

An Act Respecting  
THE BELL TELEPHONE COMPANY  
OF CANADA

BILL C-104

Brief Submitted By  
INDUSTRIAL WIRE & CABLE  
CO. LIMITED

Part One

INTRODUCTION

—to have the regulatory jurisdiction to which it is subject "changed slightly"; and

—to have its charter "modernized" in several respects.

This is highly euphemistic! A more precise statement of Bell's requests is that it be granted:

1. Power to engage in the telecommunications business;
2. Power to acquire any kind of company;
3. Power to raise 2.3 billion dollars during the next decade; and

#### *Bell's Requests*

Bell's stated objects<sup>1</sup> in requesting the enactment of Bill C-104 are:

—to obtain authority to increase capital;

<sup>1</sup>Page 5 of Bell's brief. (All references are to Bell's brief dated February, 1967)

4. Power to issue shares without the approval of the Transport Board.<sup>2</sup>

#### *Importance of Bill C-104*

This Bill is of tremendous importance to Canada and Canadians!

With the right to raise a further 2.3 billion dollars during the next decade, Bell could approximately double its present size. With the right to acquire any kind of company and to issue further shares without seeking the approval of the Transport Board, it could develop not only in the telecommunications field but in other fields as well and in virtually any manner it chose. The result of all this could be that the public would be left with a single choice of telecommunications services and equipment, would have to pay Bell's rates, and would be subject to Bell's discretion in connection with the availability of new services, as to timing, type and technical specifications.

Bell would be the chosen instrument in the entire telecommunications field!

As we point out later in this brief, we believe that it is essential that Bell's business be confined to providing common carrier communications services, and that the Transport Board's jurisdiction, staff and budget be expanded to see that this is done.

#### *Interested Parties*

In view of the possibility that Bell could become the "chosen instrument" in the entire telecommunications field, the interested parties insofar as Bill C-104 is concerned, include not only those parties who are interested in Bell's activities as such (i.e., subscribers, shareholders and competitors of Bell and Northern Electric) but also all users of telecommunications as such and all suppliers of telecommunications materials and services. It goes without saying that if Bell is granted and makes use of the power to acquire other companies engaged, directly or indirectly, in other fields, the list of interested parties would expand accordingly.

To expand briefly on the foregoing, we point out that interested parties would include:

- (i) users of telecommunications:—  
the general public;

- publishers;
- broadcasters;
- computer services;
- commercial institutions including banks;
- governments and government departments; and

- (ii) suppliers of telecommunications materials and services, including:
  - manufacturers;
  - distributors;
  - service companies;
  - CATV interests.

In view of the importance of this suggested legislation, it is imperative that all interested parties be heard. However, in view of the Bell-Northern complex's tremendously powerful position and the constraints already exercised upon interested parties generally, it is to be expected that many or even most interested parties will not come forward of their own accord to make presentations to your Committee. That being the case, it is urged that at least a representative group of interested parties be invited to make representations.

This should unquestionably be the case, it is submitted, with regard to the governmental departments involved, such as the Combines Department, the Department of Industry, the Department of Transport, the Transport Board, the Board of Broadcast Governors and other interested departments and governmental bodies. Further, the views of the Economic Council of Canada should be sought.

In addition, there are numerous provincial authorities which should be represented—for example: municipal corporations (whose streets are involved for right-of-way purposes and who, as later pointed out, are missing out on a legitimate and meaningful source of revenue) and provincial departments of education, since telecommunications (educational TV) will be playing an increasingly important role in education.

Your Committee, of course, will afford the best possible representation which the general public can hope to obtain.

#### *The Position of Industrial Wire & Cable Co. Limited as an Interested Party*

Industrial Wire & Cable Co. Limited, since it is a shareholder and subscriber of Bell and since it is a competitor of Bell's wholly-owned subsidiary, Northern Electric, is for those reasons alone an interested party in respect of Bell-Northern matters. Its interest

<sup>2</sup> References in this brief to the "Transport Board" are to the former Board of Transport Commissioners for Canada, or to the Canadian Transport Commission which has replaced it, as the case may be.

is even more direct than usual in regard to Bill C-104 in view of the implications of the suggestion that Bell be empowered to engage in the "telecommunications" business as contrasted with the "telephone" business, since Industrial Wire is engaged in the electrical manufacturing business.

First, a word about ourselves. Industrial Wire is a publicly owned Canadian corporation and more than 99 per cent of its approximately 1,200 shareholders are Canadian residents. This is a higher percentage of Canadian shareholders than Bell has.<sup>3</sup> Industrial Wire operates five plants and eight sales offices and warehouses across Canada. Its products relate to the transmission and distribution of electrical energy and its principal customers are the power utilities (for example, Ontario Hydro and Quebec Hydro) and electrical contractors. Industrial Wire and its subsidiary companies employ approximately 600 people and have annual sales in excess of \$20,000,000. The Company has shown dynamic growth over the past five years.

Our initial involvement with Bell was as a sizeable supplier of wire and cable products to Northern Electric. This was a mutually beneficial relationship for some years until Northern Electric embarked on an aggressive selling campaign which involved drastically lowering prices in their dealings from coast to coast in Canada. Northern's pricing on wire and cable products reached such a low level that we were convinced that it was selling below cost. Consequently our original confrontation was as part of a battle for economic survival since Northern by virtue of its size and its relationship with Bell was (and is) in a position to maintain depressed prices for such a long period of time as could bankrupt even the largest wire companies in Canada.

This unfair advantage of Northern led us to investigate the basic relationship between Bell and Northern and we came to the conclusion, which we still maintain, that it was beyond Bell's legal power to acquire shares in Northern Electric. More is said about this point later in this brief.

It is abundantly clear that Bell wishes to expand its activities in other areas of telecommunications than telephone, and to exploit every manufacturing and service advantage which it can. Indeed, by its own

admission, Bell "can no longer be considered a telephone company in any narrow sense but should be regarded as a communications company"<sup>4</sup> although it is only now that Bell is coming to Parliament to request the legal power to conduct such activities. These activities will impinge even further on the position of manufacturers of electrical products, in which group we number ourselves, with the result that we must continue in our efforts to present the case of interested parties in general, and our Company in particular.

#### *Problem Facing The Standing Committee*

As pointed out above, Bill C-104 has tremendous implications for Canada and Canadians. It also involves matters of considerable technical complexity.

That being the case, it is respectfully submitted that the problem facing your Committee is a formidable one involving as it does an attempt to fully comprehend complex matters, the necessity to hear from as many interested parties as possible and the burden of decision in dealing with Bill C-104 in such a way as to foster Bell's growth and allow it to keep in the forefront technologically, while at the same time ensuring that Bell's activities are reasonably restricted in the public interest. This in turn involves a consideration of Bell's status as a Special Act Company enjoying special privileges, and the manner in which these should be regulated.

### Part Two

#### DETAILED ANALYSIS OF BILL C-104

##### 1. Power to Engage in the Telecommunications Business

###### *Bell's Requests*

Bell is requesting all-embracing powers in regard to telecommunication. In the explanatory note to section 7 of Bill C-104 it is stated as follows:

"The Company, being unable to forecast all possible technological changes, proposes an amendment which would permit the Company to use and adapt any improvement or invention for communicating with others and any other means for communicating that may, in the opinion of the Board of the Directors of the Company, be deemed to be in the interest of the Company."

<sup>3</sup> Exhibit No. 4 to Bell's brief.

<sup>4</sup> Page 48 of Bell's brief. See also the Toronto telephone directory where Bell advertises "895 communications solutions to business problems".



In Bell's "Shareholders' Quarterly Review" (Summer 1967) the following appears under the heading "Telecommunications is our Business."

"The word "telecommunication" has today largely replaced the word "telephone" as the broadly inclusive term for our industry, and is the one used in current legislation on the subject. Despite this, we find ourselves under suspicion for asking that our Act of Incorporation be re-phrased to make this substitution and to assure the operating scope and flexibility needed to meet the communications requirements that modern customers look to this Company to fill."

At this stage one point must be made. Bell's industry is the telephone industry. Bell is requesting corporate authority to engage in the telecommunications industry. The word "telecommunication" is the word used in current legislation on the subject of *telecommunications* and not the subject of telephone. Naturally Bell is under suspicion, to use its term, for asking that its Act be "re-phrased" to make the substitution of telecommunication for telephone because the nature of the request is such that, if granted, Bell would be authorized to engage in a business infinitely broader in scope than the telephone business. The request could be compared with that of a bus company asking that "mode of transport" be substituted for "bus" so that it thereby could operate trains, steamships, airplanes, spaceships and so on.

A related request, but one of particular significance, is to be found in section 11 where Bell is requesting that it may construct, erect and maintain its line or lines of *telecommunication* (instead of *telephone*, which word presently appears in the relevant section of Bell's charter) along the sides of and across or under public highways, streets, bridges and such other places.

#### *Definition of Telecommunication*

In order to fully comprehend the significance of the requested charter amendments, one must consider the meaning of "telecommunication". In the explanatory notes to section 7 Bell adopts the definition of "telecommunication" which appears in the Canadian Overseas Telecommunication Corporation Act, which is

"Any transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by

wire, radio, visual or other electro-magnetic system."

Dictionary definitions state in effect that "telecommunication" means communication at a distance as by cable, telegraph, telephone or radio. Obviously this includes wired conductor systems as well as wireless ones. Again it is clear that "telephone" is included but also included are telegraph, radio, television, teleprinter, telephoto, satellite uses and so on.

It is submitted therefore, that what Bell is really asking is that it be allowed to engage in a field far greater in scope than the telephone business, in fact one so fundamentally different that it seems highly inappropriate to describe the requested amendment as a "re-phrasing" of its charter.

In order to better comprehend the implications of the request one should consider the present and future roles of telecommunication.

#### *Present and Future Roles of Telecommunication*

There is submitted with this brief a copy of an article by Mr. E. B. Weiss entitled "The Communications Revolution and How it Will Affect Business and All Marketing." The article provides an insight into the technological advances in this field which are of such magnitude that the mind boggles. It is not possible to condense the article in a meaningful way in this brief and the reading of the article is commended. However, the basic points set out in it are as follows:

The fundamental contribution of the new communications revolution is to put knowledge to work more promptly than ever before, more effectively than ever before and over more of the world than ever before.

Through communication satellites and other remarkable communications breakthroughs, it will be possible to communicate with anyone at any time by voice, sight or written-message—instantaneously. Moreover, all communications will be instantly recorded—instantaneously retrievable—and instantaneously reproducible. This is no far-off dream—satellites are already communicating with a great part of the world.

However, what science knows about communications today is merely threshold knowledge. For example, the laser is a device that produces an intense, highly directional light beam. A Bell System report states:—

"'Coherent' laser light has the potential of carrying a tremendous volume of communications. Bell System scientists are, right now, contemplating laser 'pipes' with a capacity millions of times greater than today's most advanced communications systems, connecting major population centres and enabling any individual to have his private 'line' for sound—and—sight communication across any distance, just as he now has his private telephone line."

Another new communication science is called "holography" which photographs objects by laser light.

Electronic communication will transform the traditional world of publishing—it will also make inevitable a slow-down in the rate of growth in the use of the mails and an eventual *down turn*.

In a decade or sooner, large satellites will be put in orbit with enough power to broadcast T.V. and radio programmes *direct to individual homes*. Former Federal Communications Commission Chairman E. Wm. Henry has warned the broadcast industry that the day may come when direct-broadcast satellites will eliminate "overnight" the need for local radio and television stations.

The computer will undoubtedly have the most far-reaching social consequence of any contemporary technical development. The potential for good in the computer and the danger inherent in its misuse, exceed our ability to imagine.

Through microwave channels and the appearance of communications satellites there is no longer any technical need for distinction among the various forms of communication. All of them can pass through the same relays in the form of identical electronic pulses. This means that not only television and telephone, but books, magazines and newspapers will be converted into identical bits of energy for transmission over any distance. At the receiving end these electronic signals will be converted back into their original form or into any desired form; visual display, recorded sounds, processed pages, and so on. In other words, we will have *one major channel of news, information and entertainment* that will combine all or most of the separate electronic instruments and printed means of communications today.

The effects of electronic communications on the publishing industry are already being

seen in the mergers of publishing houses with electronics corporations (Random House with R.C.A., General Electric with Time, Sylvia with Readers Digest, Science Research Associates with I.B.M.)

Bennett Cerf, Chairman of Random House, remarked that the R.C.A. affiliation reflects "our conviction that publishing and electronics are natural partners for the incredible expansion immediately ahead for every phase of information."

I.B.M. apparently is interested not in the book business but in the education field, the information field. The article suggests that there may have to be new federal regulations in the public interest.

(William Davis, the Minister of Education for Ontario, stated recently that electronics will play an ever-increasing role in the educational system and that fewer and fewer teachers will be required.)

*In short, communication technology is now imposing unity upon all communication techniques. There is no longer any distinction among the various forms of communications. All of them can now pass through the same relays in the form of identical electronic pulses.*

*Bell intends to be in the forefront of this development and to stand athwart the input and output of all transmitted data. This raises many questions, monopoly, privacy, even national security.*

#### *Need to Limit Bell's Telecommunication Powers*

In the explanatory note to Section 7, Bell states that the revolution in communication techniques has demonstrated that the Company can no longer be considered exclusively as a telephone company. This is a startling proposition since by its Special Act, Bell is described as and is supposed to be confined to the operations of, a telephone company! In this explanatory note and throughout its brief Bell<sup>6</sup> makes reference to it being a telecommunications company. However, under section 7 and under the proposed amendment embodied in section 11, Bell is *requesting the authority to become a telecommunications company*. As was the case in regard to wireless telephone services, for which Bell received *retroactively* corporate authority by virtue of its 1948 amendment, Bell now is requesting *retroactive* authority

<sup>6</sup> See for example, pages 3, 6, 15, 20, 22, 48 and 51.



to legitimize its ventures into the telecommunications business.

Bell also claims that in order to remain strong and competitive and thus be an asset to the Canadian economy, it is compelled to meet the demands of Canadians and to supply them with the widest possible range of telecommunication service. This is another startling proposition! Why should Bell, to remain strong and competitive as a telephone company, be compelled to meet the demands of Canadians with regard to telecommunication services which are not telephone services as such? In any event, are the so-called demands directed at Bell? There are many other companies in businesses operating in the telecommunications field and if Bell, through its own financial advantages, can operate in the telecommunications field to the detriment of these other businesses, that would certainly be an asset to Bell's economy but it is highly doubtful that it would be an asset to the Canadian economy as a whole—certainly it would not help Bell's competitors.

As already pointed out, Bell also stated in the explanatory note to section 7 that the word "telecommunication" has been defined by Parliament in various statutes in quite a broad way and accordingly the evolution of the industry has been recognized. While this is true it does not follow for an instant that because there has been an expansion in the telecommunications industry that Bell, which was incorporated as a telephone company and as such given tremendous advantages, should be allowed to engage in all facets of the telecommunications industry. What do communications needs in the field of "data" or "facsimile" referred to on page 15 of Bell's brief, have to do with the telephone business?

An interesting comparison which is helpful in deciding to what extent Bell should be allowed to engage in activities outside the telephone business may be found south of the border, because the Bell-Northern relationship in Canada is very similar in many respects to the former AT & T—Western Electric relationship in the United States. In particular, the same conflict of interest with the private sector of the business community was experienced in the United States as is being experienced in Canada at the present time.

Many of the problems facing us today were solved in the United States by virtue of the Consent Decree entered into between the

United States of America, as Plaintiff, and Western Electric Company, Incorporated, and American Telephone and Telegraph Company, as Defendants, in 1956, pursuant to a complaint filed under "An act to protect trade and commerce against unlawful restraints and monopolies", commonly known as the Sherman Act.

The conflict between Western Electric's role as a manufacturer to the operating telephone companies and as a manufacturer and supplier outside the regulated field was eliminated by Western Electric agreeing to limit its activities fundamentally to manufacturing equipment for companies of the Bell System for use in furnishing common carrier communications services, and for government. Similarly, AT & T agreed to refrain from carrying on directly, or indirectly through subsidiaries, any business other than the furnishing of common carrier communications services.

Both companies undertook not to act as distributors of equipment manufactured by others. They also agreed not to enter into agreements with any independent telephone operating company under which (with minor exceptions) that company would be required to buy any equipment from them, or with any purchaser to limit, fix or control prices to be charged by such purchaser on the resale of equipment. They further agreed not to acquire any business involving the manufacture, distribution or sale of equipment useful in furnishing common carrier communications services, unless on application to the Court permission was "granted upon a showing that the effect of such acquisition will not be substantially to lessen competition or to tend to create a monopoly."

Western Electric was ordered to maintain cost accounting methods<sup>a</sup> that would afford a valid basis for determining the cost to Western of equipment sold to AT & T and the Bell Operating Companies. (This was the position urged upon the Transport Board by Industrial Wire at the time of Bell's rate base hearing.) Lastly, the Defendants were directed to grant non-exclusive licenses of the Bell System patents to anyone making application therefor on the basis set out in the Decree.

<sup>a</sup> This is a very comprehensive system which segregates Western's Bell and non-Bell customers, and provides detailed breakdowns under the general product classifications "Apparatus and Equipment", "Cable and Wire", and "Suppliers".



Various conditions are spelled out to ensure fair and non-discriminatory licensing arrangements.

Stated simply, the result of the foregoing was to confine the group activities to the manufacture of equipment for, and the provision of services in connection with, the common carrier communications business. This prevented the spread of the monopoly position from the regulated area to the unregulated area and simplified the task of regulation in the public interest.

By contrast, Northern manufactures and distributes a wide range of electrical products from coast to coast, and these products encompass the full spectrum of electrical contractor supplies from screw-drivers, lighting fixtures and pliers to wire and cable, conduit, fire alarms and so on. This business dwarfs by comparison that of any of the independent electrical distributor chains. In addition, the vast purchasing power of Bell makes its impact felt in the market place in support of this activity. The principal products manufactured for Northern's electrical supply operations are wires and cables and these often form loss leaders in connection with large tenders. This bears directly on our Company and many of the other interested parties earlier referred to. If Bell is given the right to engage in the entire telecommunications field, this situation would be aggravated and a wider range of interested parties would be affected.

A further practice of Bell which could spread into the entire telecommunications field if Bell's powers are extended has to do with Bell's practice of imposing "Bell standards" and excluding "foreign" equipment from physical contact with its system. There is no doubt that Bell's standards are excellent specifications for their own manufacturing and service organization and reasonable, generally speaking, as industry guidelines. However, they are unquestionably biased towards Bell designs and manufacturing techniques and are not necessarily the last word in engineering excellence in every instance. Nevertheless, relying on this code, Bell is the final arbiter in deciding what equipment will be used, how it will be installed and indeed by whom. The impact of this policy already falls on a wide range of service companies and manufacturers dealing with paging systems, sound systems, mobile telephone, telegraphs, teletype and in short, anyone with a direct involvement in service

or equipment with Bells' communication network. More would be affected if Bell's activities spread further outside the telephone field.

One last point to consider before granting Bell telecommunication powers as opposed to telephone powers is the following:

Bell for some years has by its own admission been engaged in the telecommunications business and indeed considers itself a telecommunications company. For example, large sums of money have been spent for a number of years by Bell in maintaining extensive field and laboratory installations in regard to satellite activities. Presumably this investment has found its way into Bell's rate base and will therefore be reflected in the rates paid by Bell subscribers. However, Bell at this stage does not have the corporate power to engage in this activity. It is submitted that the foregoing indicates that Bell's powers should be carefully limited rather than extended to allow it to engage in the entire telecommunications field.

On the other hand, Bell should have every possible power to keep in the forefront as a telephone company and in a position to develop and use modern technology. We feel that Bell already has such power but if not, it should be granted them.

In other words, Bell should have telecommunication powers for use in the development of its telephone business but not for use in regard to other businesses. For example, in 1948 Bell was given the power to operate and furnish wireless telephone and radio-telephone systems and we feel that it is entirely appropriate that Bell should have whatever powers it needs to develop its telephone system in the best possible manner but, like AT & T it should be confined to the telephone business.

#### *Special Considerations Respecting Bell's Statutory Right-of-Way*

In section 11 of Bill C-104 Bell requests authority to construct, erect and maintain its line or lines of *telecommunication* along the sides of and across or under any public highways, streets, bridges, water courses or other such places. The present section in Bell's charter relates to its right to construct its *telephone* lines in such places and we have already pointed out the fantastic difference between what is comprehended by the word "telecommunication" as compared with the word "telephone".

To the extent that Bell is presently using its statutory right-of-way for the construction and maintenance of lines other than telephone lines it is exceeding its corporate powers. The explanatory note to section 11 refers to section 7 as indicating the need to refer to Bell as a telecommunication company and states that for the sake of consistency the proposed substitution (i.e., telecommunication lines for telephone lines) appears necessary. It seems to us that the substitution is required more for the sake of legality than consistency because Bell in undertaking telecommunication activities and in using its statutory right-of-way for other than telephone purposes is exceeding its present powers. These abuses should be halted.

Bell's right to erect poles along public streets and other public places is a privilege granted by Parliament. It is the location of the poles and not their intrinsic value which creates from the practical point of view the monopolistic advantage of Bell over others. This monopolistic advantage arises from the privilege granted by Parliament on the theory that the general availability of telephone service is in the public interest. It is imperative, therefore, that Parliament not permit this advantage to be abused nor Bell to extend its monopoly. However, this amendment could lead to Bell having a monopoly to carry not only telephone messages but all other types of electronic pulses over its wires—and at no cost to Bell.

It is respectfully submitted that the views of municipalities and others who would be affected by this amendment should be obtained. It is common ground that homeowners bear an excessive burden in regard to municipal taxes. A valuable source of revenue is available to the municipalities in connection with the licensing of "electronic highways" and this source should be fully exploited in the interests of all municipal taxpayers. Certainly, Bell should not be allowed to use its statutory right-of-way granted for telephone purposes for other than telephone purposes without making an appropriate payment therefor.

So much for the financial aspects of this matter. However, we feel that for the reasons stated below, Bell should not be allowed to use its telephone right-of-way for any other purposes even if it paid for this privilege.

It appears that Bell is attempting to control coaxial cable uses and to take over as much of the field for itself as it can. For example,

anyone wishing to provide cable TV service to a community must negotiate with Bell for the use of its poles as there is no economic alternative. (This is not always the case in the United States where operators sometimes obtain exclusive franchises from city governments in return for a percentage of their gross revenue. Note here too that the appropriate recipient, i.e., the municipality, receives the payment.) These negotiations with Bell are entirely one-sided in view of the unequal bargaining position and lead to the cable TV operators being forced to make unfortunate agreements. What choice have they however, when they have no competitive alternative nor any recourse to any regulatory body. For further information in this regard, please see Appendix C to this brief.

The cable TV business is in jeopardy because of the expansion of Bell, presently we submit without authority, into the telecommunications field and the manner in which Bell restricts the use of its poles by others. Other examples are bound to present themselves if Bell's activities are further extended. That being the case, it seems extremely important, as previously urged to restrict Bell's use of telecommunications to its telephone business and to ensure by effective regulation that these restrictions are complied with.

## 2. Power to Acquire Other Companies

Industrial Wire's fundamental objection to Bill C-104 originally centred around section 8 dealing with Bell's power to invest in other companies. Now we feel at least as concerned about their request for power to engage in telecommunications. In any event, we sincerely believe that under no circumstances should Bell's charter be amended to include any such section as section 8.

Under this section Bell would acquire the corporate power to purchase or otherwise acquire shares "in any other company having objects in whole or in part similar to those of this Company or in any company engaged in research or development work in areas of inquiry that relate to the objects of this Company". With this power, Bell could henceforth rest easy in regard to its highly questionable purchases of shares of Northern Electric and, equally important, would have the power to acquire either directly through subsidiaries or indirectly through subsidiaries of such subsidiaries, companies with the power to engage in any business whatsoever.



For example, with such powers Bell could enter into the automobile business, could acquire distilleries and could in fact engage in any kind of business.

In the explanatory note to this section, Bell states that "the most effective way to preserve the enviable position enjoyed by the Canadian telecommunication industry is to develop a strong research and development sector fully integrated with operations and manufacturing." Bell itself probably has the power to develop a strong research and development department anyway and if not should be given it. This is not to say, however, that Bell should be entitled to acquire any other type of company to accomplish this, since any such other company would not be restricted to activities within the telephone business.

The ownership or integration of manufacturing facilities may be an essential requirement for the provision of good service, as claimed by Bell on page 3 of its brief, and they quote as an example AT & T. We would have no objection at all to this if Bell and Northern were restricted in the manner AT & T and Western Electric are, as already discussed.

Bell discusses proposed section 8 at pages 50 and 51 of its brief. The reference to the need to have the power to acquire other companies due to the possible unavailability of foreign research is a red herring. Bell does not need a separate company for research.

Reference is then made by Bell to section 14(e) of the Canada Corporations Act (page 51) which sets forth the investment powers of an ordinary letters patent company, as the source for the wording of proposed section 8. No reference was made to section 194 of the Canada Corporations Act which sets forth the investment powers of a *Special Act company* as follows:

"194. No company shall use any of its funds in the purchase of shares in any other corporation unless in so far as such purchase is specially authorized by the Special Act. 1943, c. 33, s. 190".

Bell is a Special Act company.

Before leaving the question of Bell's power to invest in other companies, we wish to refer to their Quarterly Review where it is stated that Bell seeks the power to invest in other companies engaged in related research to ensure the possibility of access to the valuable scientific and technological developments of others. Arrangements may usually

be made with others to obtain by agreement access to scientific and technological developments. Failing agreement, the only way to obtain such access is by taking over the company. When this is done, it follows that everything that the company is engaged in is also taken over and much of this could be quite unrelated to the telephone business. Should Bell be given any such power? In this regard, may we quote from Kaysen & Turner—Antitrust Policy (1959) at page 124—

"Integration across the competitive-regulatory boundary should be prohibited, both because it may spread monopoly from the regulated area to the unregulated one, and because it complicates the task of regulation."

#### *Proposed Section 8 and Northern Electric*

Bell is a Special Act company and has been granted by statute special rights. By the same token, it is subject to statutory restrictions (including those in section 194 limiting its investment powers already referred to) meant to ensure that it will confine itself to the purposes of its Special Act. The fact that to date Bell's ownership of Northern's shares has not been brought to an end serves to show that it sometimes takes a great deal of time to correct an excess of authority.

We have already pointed out that if section 8 is enacted, Bell could acquire shares in any kind of company whatsoever. This Section would also make it difficult to rectify the existing situation regarding Bell's holding of Northern shares except by further legislation.

Northern already engages in many activities outside the telephone business and outside the area where Bell operates. For example, Northern is just now bringing into production a new wire and cable plant in Calgary, Alta. To give a further insight into the type of business Northern already engages in, please refer to Appendix B to this brief which shows, in Northern's own words, the "supermarket" aspect of its activities in fields unrelated to the telephone business. What other supermarkets might come into existence if section 8 passes?

In Bell's Quarterly Review reference was made to the concern that had been voiced that Bell might invest directly or indirectly in companies whose aims and endeavours are quite unrelated to the telecommunications industry. It was then stated "this seems to overlook the fact that Bell has had such powers since 1880 and has never abused them." More precisely, our concern was that



Bell might acquire companies unrelated to the telephone industry. Be that as it may, it is surely not even correct to say that Northern's endeavours in many respects have not been quite unrelated to the telecommunication industry. What connection, for example, does the sale of white goods have with the telecommunication industry or the sale of screw drivers, electric light bulbs and fire alarm systems?

As far as Bell's holding of Northern Electric shares is concerned, Bell's Quarterly Review states that both the Supreme Court of Canada and the Federal Cabinet maintained the Board's decision that Bell had power to own Northern Electric shares. However, the precise situation is as follows:

Industrial Wire wished to appeal the Board's decision to the Supreme Court of Canada but leave to appeal had to be first obtained from that Court. An appeal lies on a question of law and a single judge of the Supreme Court of Canada refused leave to appeal, presumably on the ground that more than a strict question of law was involved. We subsequently appealed to the Cabinet who, without reasons, dismissed our appeal. Our fundamental request in our appeal to the Cabinet was that the Cabinet refer the matter to the Supreme Court of Canada since we felt that an issue of this importance should be heard by the Supreme Court, whether or not more than strict questions of law were involved.

We still feel that this is of vital importance and depending on whether or not your Committee sees fit to recommend that Bell's requests be granted, such an appeal should still be heard. The issues are set out in a letter which Industrial Wire recently wrote to all Members of Parliament enclosing a memorandum dealing with the implication of Bill C-239 (the former number of Bill C-104). A copy of that memorandum is attached as Appendix A to this brief and we urge all Committee members to re-read it in the context of this brief, particularly in regard to the finding by the Board that Northern's 19,000 feet of wire constituted a line of telephonic communication with the result that Northern was the type of company in which Bell could invest!

### 3. Power to Raise Additional Funds

By virtue of section 2 of Bill C-104, Bell is requesting that the capital stock of the Company be increased from time to time by such amounts as the shareholders may

deem necessary for the purposes, objects and undertaking of the Company, and the increase in authorized capital requested is from one billion dollars to one billion, seven hundred and fifty million dollars. This is not to say that Bell is asking for the right "merely" to raise \$750,000,000—on the contrary, since its shares are issued for more than their par value, Bell with an increase in authorized capital of \$750,000,000 should be able to raise a further \$1,300,000,000. At the same time, since Bell traditionally raises further funds by way of bond issues, and since the ratio is 40 per cent by way of bonds to 60 per cent by way of equity, the bond financing would result in a further \$1,000,000,000 being raised by Bell. Bell is really asking for authority to pave the way for it to raise directly (exclusive of what it generates itself) over the next decade \$2,300,000,000 and this is made clear by Exhibit No. 1 to Bell's brief. The total assets after depreciation of Bell and its subsidiaries as at September 30, 1966, built up over the period since 1880, were approximately 2.6 billion dollars. In total, Bell plans to spend 4.75 billion dollars on construction over the next 10 years—ambitious plans indeed!

Bell shareholders, subscribers and others are certainly entitled to the assurance that the funds raised will be used, in the words of proposed section 2, "for the purposes, objects and undertaking of the Company." In fact, the shareholders are in a very poor position to see that this is done. As more capital is issued, the percentage interest of existing shareholders is lessened. Bell, it is submitted, has exceeded its objects in the past and it seems reasonable to ensure that better safeguards to confine Bell within its objects should be provided before allowing the increase in capital.

The explanatory note to section 2 states that the Canadian public continues to demand better and broader services. Query whether or not the actual situation is not that Bell devises new products and services and then promotes their use by the public, e.g., the Princess Telephone.

There is demand for new developments such as special circuits for the transmission of data but is this demand exclusively directed at Bell? Indeed should it be if there is any question as to the legal power of Bell to engage in such activities.

Further, should Bell with its monopoly position and huge resources be allowed to

engage in such business in any event—what about the little guy? We think not.

We do not presume to know how much money it is proper to authorize Bell to raise. We sincerely believe, however, that all moneys raised should be spent only in pursuit of the Company's legal powers. This leads to a consideration of the question of control generally and, in particular, regulation.

#### 4. Power to Issue Shares Without the Approval of the Transport Board—Regulation Generally—the Overall Question of Control

##### *Corporate Control*

Among investors, Bell Telephone stock has long been considered a widows' and orphans' stock. This image is one that Bell's management does much to foster. However, it does not follow that these same widows and orphans have much say in the operation and management of the Company.

Bell is managed by a Board of 17 directors who are described in the Company's own words by such terms as "Company Director", "Executive", "Utility Executive", "Manufacturer" and "Lawyer". In other words, Bell's Board represents big business. These are the people who are requesting the enactment of Bill C-104 which would allow Bell to engage in any type of business whatsoever.

It is also interesting to note that American Telephone and Telegraph Company owns about 2.2 per cent of the issued stock of the Company or about 700,000 shares and this represents an investment of about \$35,000,000 at present market prices. This is a very large block of shares considering how widely held Bell stock is. In addition, American Telephone and Telegraph has a service contract with Bell under which in essence it receives each year 1% of the total local service and toll service revenues of Bell and its subsidiary operating telephone companies. This amounted to more than \$5,000,000 in 1964 and is considerably higher now. It is obvious, therefore, that there is a close and meaningful relationship between this American company and Bell of Canada.

The foregoing facts should be borne in mind when assessing the validity of Bell's claim to be a truly Canadian Company controlled by residents of Canada. Be that as it may, it should also be borne in mind that many of Bell's competitors are Canadian in every sense of the word.

##### *Regulatory Control*

It seems fair to say that the control over Bell exercised by the Board of Transport Commissioners for Canada over the past has left much to be desired, both from the point of view of procedure and the point of view of substance.

For example, the Board for years accepted as evidence that the Bell-Northern relationship was beneficial, an analysis of the prices of certain products sold by Northern to Bell as compared with the prices at which Northern sold these products to outsiders. This, of course, does not prove that Northern was not making an unreasonable profit out of its transactions with Bell and in the United States by virtue of the Consent Decree referred to earlier statistics are required in similar circumstances to indicate the profits made on such sales.

Industrial Wire urged the Board to follow a similar procedure at the time of Bell's recent rate base hearing but the Board did not accept nor reject Industrial Wire's submission at the time. Subsequently, however, the Board in its judgment stated that "We have been persuaded that further evidence should be presented by Bell, so as to furnish the Board with an additional check upon the reasonableness of the general level of prices paid by Bell to Northern. We therefore requested Bell to provide us with a break-down of Northern's return on capital devoted to Bell business and on capital devoted to non-Bell business. Such a break-down was furnished to us and we have examined the methods and procedures used in its preparation." This break-down was reviewed by the Board but it was not furnished to the other interested parties who appeared at the hearing nor were any Bell or Northern witnesses called for cross-examination. Surely this is an unsatisfactory way to proceed!

Much more astounding to us, however, was the judgment of the Board with respect to the legality of Bell's ownership of Northern's shares and the situation is explained in full in Appendix A to this brief. We will bring to show your Committee at the time we present our brief a section of multi-conductor cable so that you may obtain a clearer conception of the absurdity of the proposition that mere ownership by Northern of two wires in a multi-conductor cable is sufficient to constitute Northern a company possessing as proprietor, a line of telephonic communication.



In fairness to the Board, it should be pointed out that it would appear to be badly under-staffed and under-financed, certainly as compared with its American counterparts, and in such a position is no match for Bell with its hordes of experts and specialists and its unlimited resources to prepare for any hearing before the Board.

Rather than limit the regulatory jurisdiction over Bell the effectiveness of the existing jurisdiction should be greatly increased by providing the new Transport Board with an adequate budget and expert staff so that it may confine Bell within the bounds prescribed by its Special Act without harming its operations. In addition, the new regulatory authority should have an opportunity to review Bell's position periodically and accordingly its jurisdiction with regard to the approval of share issues should not be removed.

We do not consider ourselves devout and uncritical followers of our friendly neighbours to the south. By the same token, we appreciate that much can be learned from them and it might be helpful to the Committee to consider the following facts in connection with the United States Federal Communications Commission ("FCC").

**Jurisdiction:** The FCC deals with the general field of communications. Their 1966 Annual Report to Congress dealt, among other things, with the following:

Satellite Communication; Microwave; CATV Systems; Broadcast, including Educational Broadcast, TV, FM and AM; Safety and Special Radio; and Common Carrier, including Telephone and Telegraph.

Although the Transport Board is not presently engaged in as broad a communications field as the FCC it deals or will be dealing with matters unrelated to the communications field, notably transport by railways, air, water, motor vehicle and commodity pipeline. This is a very broad jurisdiction and presents the Board with a difficult task to perform.

It should be emphasized at this stage that if Bell is granted the powers requested, the Transport Board will (or at least should) find itself involved in much broader telecommunications areas than at present. This may give rise to conflicts with other regulatory authorities such as the Board of Broadcast Governors and this aspect should be given careful study.

It should also be pointed out that the National Transportation Act under which the new Canadian Transport Commission is established is in essence an Act "to define and implement a national transportation policy for Canada." It contemplates that the Commission, to perform its duties, will establish the following transport committees—railway, air, water, motor vehicle and commodity pipeline.

#### *Nothing about telecommunications!*

If this means that the Commission will not have a special committee of experts dealing with Bell and other telephone companies, we shudder to contemplate the result!

**Staff:** The FCC's staff totals approximately 1,500. The FCC maintains four special bureaus in addition to its many other divisions, namely: the Broadcast Bureau, the Safety and Special Radio Services Bureau, the Field Engineering Bureau and, the one in which we are interested, the Common Carrier Bureau which is concerned with the regulation of all domestic and international common carriers as well as the Communications Satellite Corporation. Average employment in the Common Carrier Bureau in 1967 was approximately 160 made up as follows:

- Accountants (38)
- Attorneys (31)
- Engineers (25)
- Economists (7)
- Public Utility experts (9)
- Non-professionals support (50).

The Transport Commission must have something of this nature to do the job.

**Budget:** The annual budget for the FCC's Common Carrier Bureau in 1967 was slightly over \$2,000,000. This budget is specifically employed in the regulation of common carriers like Bell.

**General:** Unless the Transport Commission is given broader jurisdiction, more staff and a higher budget all directly brought to bear in a function like that performed by the FCC's Common Carrier Bureau, the Commission will be no match for Bell in attempting to carry out its regulatory function. At Bell's last rate base hearing, for example, 7 or 8 barristers were in attendance in the court room representing Bell. There is no way of knowing how many others worked on the preparation of the material. The point is that Bell can employ an almost limitless supply of talent in regard to matters involving its regulation, with the result that the tribunal must



be equally as well staffed and financed to effectively fulfil its function.

While it is true that the communications network in the United States is larger than here, it is in no way more complex than ours. Nevertheless, we are not suggesting that the Transport Commission should have the same numbers or as high a budget as the FCC. It is submitted, however, that for it to do an effective job of regulation, it must have adequate staff to not only protect the public interest in all hearings before it, but also to enquire into the activities of Bell and its subsidiaries (and other telephone companies under its control) on a periodic basis in connection with at least the following:

Sales and income; inter-company pricing; reserves; invested capital; return on investment; rate structure; financing; manufacturing efficiency; equipment standards and purchasing policies; employee benefits; research and development activities; patent licensing; use of public rights of way; restraint of trade practices; public interest and service complaints.

#### *Regulatory Control in regard to Share Issues*

Bell in its Quarterly Review states that the elimination of the power of the Transport Board to approve share issues is a request for the "elimination of a now obsolete and unneeded step in the regulatory process." Bell explains this by stating that originally it was authorized to earn so many dollars per share and that accordingly the issue price and the number of shares issued were factors of direct concern to the regulatory authority since the more shares issued, the more that the Company would be entitled to earn. Bell then pointed out that in 1966 the Board adopted a new method of earnings regulation based on the rate of return on total capital and accordingly this particular element of regulatory control is no longer necessary. We could not disagree more.

It is submitted that the jurisdiction of the Board is not so circumscribed and if it could ever be argued that this was the case, then the Board's jurisdiction should be immediately amplified. It seems to us that when Bell is given power to raise capital *for the purposes, objects and undertaking* of the Company, but when Bell is *not* empowered to issue any stock without first obtaining the approval of the Board, one of the Board's prime concerns is or should be to ensure that the money already raised has been used for the pur-

poses of the Company and that the additional stock to be issued will produce funds which will also be used for such purposes.<sup>7</sup> In view of Bell's past conduct in exceeding its powers, it is of paramount importance that this particular head of jurisdiction of the Board not be removed. On the contrary, it should be amplified if there is any question as to its breadth.

#### *Parliamentary Control*

Since Bell is a Special Act company, changes in its charter must be authorized by Parliament and this is why Bell has had Bill C-104 introduced.

We have already dealt with the objects of the Bill—both those as stated by Bell itself and those as seen and understood by ourselves.

We have already stated our views as to the granting of the additional powers sought by Bell. However, even if some or all of these powers are granted it is submitted that Parliament should never grant a company such as Bell, which already has by statute special advantages, the corporate power to engage in a very wide range of activities and the financial means to do so, and then abdicate jurisdiction over the Company for such a long period as ten years.

In this regard, we wish to make one further reference to Bell's brief at page 22 where it is stated as follows:

"Telephone service, which is rapidly broadening into complete telecommunications service, is now, and will increasingly become, woven into the fabric of our Canadian society. The sheer size of the country, the growth in population, the gravitation towards urban life, the increased standard of living, the greater development and sophistication of business—all of these point to more and more telecommunication needs."

This makes it crystal clear that Bell believes telecommunications will play an increasingly fundamental role in every aspect of Canadian life, just as we have indicated in this brief. This underscores the need for Parliament to keep in close touch with developments in this dynamic field and steps should be taken to ensure that Bell will be obliged to return to Parliament periodically for a

<sup>7</sup> As a matter of fact, Bell has followed the practice, when applying to the Board for approval of a share issue, of pointing out the intended uses of the funds to be raised.

further mandate. In its Quarterly Review Bell acknowledges the authority of Parliament and this authority should be exercised on a periodic basis.

#### 5. Other Aspects of Bill C-104 *Benefit to Canada*

Bell alleges that the revenues received by it for its services, plus the investment of capital required by it, flow back into the Canadian economy in many ways providing important support and stimulus. Bell's activities, on the other hand, do not provide much support and stimulus to the competitors of Bell or Northern. This by itself is not objectionable except to the extent that Bell, a monopoly with guaranteed income, is enabled to compete with others outside the telephone business who do not enjoy the benefits enjoyed by Bell.

Bell points out that the total employment provided by the Bell-Northern complex and the resultant flow of wages becomes an important segment of the economy. Granted, but no more so than an equal flow of wages paid by their competitors.

#### *Monopoly Aspects*

We have already discussed the activities of Bell regarding the arrangements it makes with cable T. V. operators for the use of its poles. These arrangements are described as an "excellent example of unfair and restrictive practices" in the editorial attached to this brief as Appendix C. That editorial goes on to deal with Bell's tactics in keeping the rural telephone rates of independent telephone companies "depressed" to the point where the independents have difficulty in making a fair return.<sup>8</sup>

It also seems to be the case at the present time that whenever Bell acquires a new telephone subsidiary which prior to acquisition purchased equipment from suppliers other than Northern, it is difficult for those suppliers from that time on to get any further business. It was the fear of just that sort of thing which prompted the Government of Nova Scotia, at the time of Bell's proposed takeover of Maritime Telegraph and Telephone Company, to limit Bell's voting power of the Company despite the fact that it

obtained a majority of the shares. Local suppliers had to be protected.

As mentioned in the introduction to our brief, our initial confrontation of the Bell-Northern empire arose through Northern's practice of selling products competitive with ours at prices which we were satisfied were less than Northern's cost.

The foregoing are examples of present problems experienced by competitors of Bell and Northern. Now Bell is asking for power to engage in the telecommunications business, to take over any kind of company, to raise huge sums of money and to have one of the basic heads of jurisdiction of the Transport Board eliminated. All of this would be superimposed on the basic Bell-Northern structure which is that of a government-created monopoly with a guaranteed fair return on total investment. On that basis Bell could completely dominate any sector of business it chose.

This is truly a frightening prospect.

It is submitted that your Committee should seek and obtain representations from the Restrictive Trade Practices Commission prior to finalizing your recommendation on Bill C-104.

It is also submitted that in this general connection thought be given to the way in which Bell should be obliged to deal with its patents and patent rights. Bell's research activities are financed in the same manner as its other activities, i.e., fundamentally from the subscriber. The result of its research, however, is preserved solely for Bell despite the fact that it was in essence the public at large which financed the research. By contrast, AT&T in the United States is obliged to grant licenses in respect of its patents to anyone applying therefor. The fees arising from this licensing go, as they should, to reduce the rates which the subscribers would otherwise have to pay.

#### *Corporate Name*

The Company requests that it may from time to time as it sees fit use and may be legally designated by any one of the following names:

"The Bell Telephone Company of Canada";

"La Compagnie de Telephone Bell du Canada"; or

"Bell Canada".

This seems like a perfectly straight-forward request which Parliament should grant.

<sup>8</sup> We are not totally astonished that Bell no longer advertises in the Journal in question. Our sales to Northern have not increased since our confrontation of them either. Little wonder that vocal interested parties are hard to come by!



Otherwise it is conceivable that Bell's present use of the name "Bell Canada" might be somewhat embarrassing to Bell.

### Part Three

#### CONCLUSIONS AND RECOMMENDATIONS

1. (a) Bell should be in a position to provide common carrier telephone services of all kinds. In this regard it should be able to make use of any telecommunication developments it sees fit.

(b) Bell should not be permitted to engage in telecommunications in other respects.

(c) To the extent that it is efficient to use Bell's rights of way for other telecommunications purposes, this should be allowed but on the condition that appropriate financial arrangements are made, and that Bell does not control the input or output of the "electronic highways" except in respect of its own business.

2. (a) Bell should confine itself to the telephone business and should not be allowed to acquire any other kind of company.

(b) Northern should be prohibited from engaging in any activities other than those strictly related to the telephone business.

(If this is done, it would not be necessary to have a reference to the Supreme Court of Canada to determine whether or not, once and for all, Bell's holding of Northern's shares is within its powers. If this is not done, such a hearing should be held immediately).

3. The way should be paved for Bell to raise whatever funds it reasonably requires from time to time, but only for the purposes of its telephone business which must be carried on strictly within its corporate powers.

4. Parliament should ensure that Bell is obliged to appear before it regularly at intervals of far less than 10 years.

5. (a) Governmental regulation of Bell's activities should be strengthened to ensure that Bell carries on its telephone business within the scope of its powers and in the public interest, while at the same time allowing it all reasonable latitude to develop along the lines set forth in paragraph 1(a) above.

(b) The Transport Board should be granted sufficient power, staff and financing to enable it to provide truly effective regulation.

It is submitted that failure to implement the foregoing recommendations will lead to Bell being the chosen instrument in every

aspect of telecommunications in Canada. This would be inevitable in view of Bell's existing communications networks established on public property (by virtue of its statutory right-of-way), its guaranteed profit on invested capital, its tremendous purchasing power and the benefits of its subsidized research program. Bell so armed could set its own prices and effectively prevent competition from the private sector of the business community, and this in turn would forestall the extension of telecommunication services.

Bell would be virtually unassailable and uncontrollable in the public interest. This would be an ironical result indeed when Bell was formed in the first place through the realization that a common carrier telephone service was desirable in the public interest.

Industrial Wire & Cable  
Co. Limited

Toronto, Ontario, October 1967.

#### APPENDIX A

##### INDUSTRIAL WIRE & CABLE CO. LIMITED

Toronto 18, Ontario

Implications of Bill C-104  
Respecting

The Bell Telephone Company of Canada

In Bill C-239 now pending before Parliament, The Bell Telephone Company of Canada is requesting sweeping changes to its charter, which is made up of a series of Special Acts of Parliament outlined in the preamble of the Bill.

If the Bill is passed in its present form, Bell, a monopoly, will be able to engage through subsidiaries in any business whatever in direct competition with other businesses, large or small. These Bell subsidiaries will not be subject to regulation, and will have the advantage of Bell's tremendous financial resources which are largely obtained from the public through telephone rates. This could result in the stifling of fair competition in those businesses in which Bell chooses to operate.

The provisions of Section 8 would allow Bell to acquire shares and other securities in any other Company having objects in whole or in part similar to those of Bell, or in any Company engaged in research and development work in areas of inquiry that relate to the objects of Bell. While the explanatory notes do set forth some justification for devel-



oping a strong research and development sector, it is not made clear why a separate company is needed for this purpose. Indeed, at one time Bell carried on such work within its own Company. It is significant, moreover, that the explanatory remarks make no attempt to justify the acquisition by Bell of shares of any other Company having objects in whole or in part similar to those of Bell. The absence of any explanatory note, of course, does not mean that there is no explanation for this request for such sweeping changes; please consider the following:

Bell owns all of the outstanding shares of Northern Electric Company, Limited a vast concern presently engaged in many activities wholly unrelated to the telephone business. Bell acquired these shares despite the fact that, as pointed out in the explanatory notes to Bill C-239, Bell may purchase shares in other companies only when such companies possess as proprietor a line of telegraphic or telephonic communication, or when such companies have the power or right to use communication by means of the telephone. Northern's charter specifically states that Northern is not authorized or empowered to carry on the business of a telephone company or to construct and work telephone lines. Industrial Wire & Cable Co. Limited, subjected to the unfair competition of Bell through Northern, raised this issue in an application to the Board of Transport Commissioners for Canada. The Board ruled that two wires (a conductor pair) owned by Northern, 19,000 feet in length, which are located in a multi-conductor cable belonging to Bell, which cost when purchased from Bell itself \$1,000 (or approximately 0.000005 per cent of the total assets of Northern at the end of its 1965 fiscal year) and which without the necessary transmitting and receiving equipment (this being owned by Bell) were incapable of carrying a telephone message, constituted a line of telephonic communication! Curiously, the Board found that while these wires represented a line of telephonic communication and that Northern possessed them as proprietor, Northern did not operate them, with the result that Bell was entitled to purchase Northern's shares!

Industrial Wire applied for leave to appeal to the Supreme Court of Canada from this judgment of the Transport Board. Leave may be granted by a single judge of the Court but only where a question of law or jurisdiction is involved. Leave was refused, without reasons, presumably on the ground that ques-

tions of fact were also involved which precluded the judge from granting leave to appeal to the Court. Industrial Wire then petitioned the Cabinet to refer the matter to the Supreme Court of Canada or, in the alternative, to rescind the decision of the Board and order Bell to acquire the undertaking and assets of Northern. This petition was denied, also without reasons.

Bell has admitted that it is now violating the provisions of its charter with regard to the maintenance of its wires at specified heights and seeks to have this condoned and legalized by Parliament. Some few years ago Bell was also violating its charter with regard to wireless communication and was able in its 1948 statute to have it provided that, "the Company has and always has had the power to operate and furnish wireless telephone and radio-telephone systems..." Bell is now seeking Parliament's sanction of its ownership of Northern's shares and one can hardly blame Bell for wishing to strengthen the weak hold it has on Northern since it is obviously a lot to expect of two thin copper wires to bear such a heavy burden indefinitely. It is submitted that the foregoing explains in large measure Bell's request for the powers set forth in Section 8.

In addition, and potentially of equal importance, Bell seeks to obtain the right to acquire other companies and these companies in turn could incorporate or acquire any type of subsidiary whatsoever, with the result that Bell through these subsidiaries could engage in every conceivable type of business. In fact, Northern already has subsidiaries which are engaged in businesses unrelated to the telephone business. Subsidiaries of this type are not subject to regulation and if they were unprofitable, the result could be that the telephone subscriber would be subsidizing these unprofitable operations. Whether or not they were profitable, why should Bell be permitted to compete with others in fields unrelated to the telephone business in which Bell enjoys a monopoly position.

In view of the foregoing, it is sincerely believed that Bell should be confined strictly to the objects and purposes set forth in its Special Act and that its Special Act should not be expanded in this regard, with the result that Section 8 of Bill C-239 should not

be enacted. Furthermore, it is sincerely believed that the extremely important question of the legality of Bell's ownership of Northern's shares should be tested before the Supreme Court of Canada.

Industrial Wire & Cable  
Co. Limited

D. Zimmerman  
President

## APPENDIX B

Northern's "supermarket" would have made sure you did! We carry 15,000 stock answers to your supply problems of Wires & Cables, Wiring Supplies, Illumination and Lamps, Power Apparatus and Switchgear, Electrical Tools and Equipment.

It takes only one call to . . .

NORTHERN ELECTRIC  
Company Limited

*Electrical Business*, March 27, 1967

## APPENDIX C

(Editorial appearing in March, 1967 issue of Canadian Telephone and Cable Television Journal)

## EDITORIALLY SPEAKING . . .

### Keeping Free Enterprise Truly Free

Even in a country where free enterprise is upheld as the ultimate in good economics, it is a constant fight to keep business enterprise freely competitive—to give full encouragement to new endeavours, to give industries and individuals with progressive ideas, without entangling them with government controls, or, worse still, the actions of protected corporations which enjoy special government concessions, and operate by what might be considered "divine right".

An excellent example of unfair and restrictive practices by "private corporation" is the Bell of Canada's "lease-back" arrangement with cable television systems operating where Bell systems operate. These cable television systems are geared to invest in communities to bring good television services. They are an excellent example of our free enterprise system in operation. They do not ask for special privileges or area franchises. They are willing to and do operate in a highly competitive market. They represent an important part of electronics communications development.

Bell, however, offers a rigid type of lease-back arrangement, with cable television systems wishing to bring this valuable service to

communities. The cable television system has to pay Bell the cost of laying both trunk and distribution cable in full, in advance of or by completion, at so much per foot—a substantial investment for the cable TV system. Bell then proceeds to "rent" back the cable plant to the cable TV system at so much a foot. The CATV system never really owns anything on this basis, although they pay handsomely for it, and this puts Bell in the enviable position of being a sort of leasehold landlord who could eventually own everything, lot, stock and barrel. This despite the fact they are given special government territorial protection to operate telephone service only.

Now, the Bell has made application to the Government of Canada to have their charter changed—the terms of which would broaden their scope of operation and permit them to go into a variety of electronics transmission pursuits—and will end—who knows where. It is almost like turning over the government mint to them and saying to them, "go ahead and print what you want, "we'll supply the guards to protect your operation".

Frankly, we consider this approach of Bell a gross misuse of the privilege they have been given to bring telephone service to cities and towns. We agree the Bell gives reasonably good service in most of the communities it serves—but no better than 95 per cent of the telephone systems across the country.

Bell is the only telephone company in Canada which has a Dominion Government charter. All other telephone companies are under their own provincial control. This in itself is eminently unfair to these other telephone companies, since, should Bell invade an independent's territory, the Bell suddenly becomes above and beyond the law, operating according to its own "divine right". Throughout the years, it has only been through constant struggle that independents have been able to get adequate toll compensation, or an equitable operating arrangement with Bell. Bell's city and metropolitan operations which are highly profitable subsidize their rural operations, and supplies them with funds to "take over" independent systems from time to time. Their own low rural rates manage to keep the rural rates of independents "depressed" to the point these independents have difficulty making any type of return on plant investment—or even making a go of things.



Now, the giant Bell is casting its eyes in other directions. They have applied for a new charter so that they may expand their operations. Where will it end? At this juncture, we say to Bell, beware—if your size and power permits you to restrict development of other enterprises, one day your own operations may be considerably controlled and restricted—to allow free enterprise to develop on a fair competitive basis—as one expects in Canada.

We are not in favour of the government passing this new charter applied for by Bell. We say, in fairness to all other telephone companies, let Bell relinquish the charter they now have, and place themselves under the control of each of the two Provinces (Ontario and Quebec) in which they operate on exactly the same basis as all other Canadian telephone systems.

## APPENDIX A-7

### TR SERVICES LIMITED

Toronto 7 Canada

October 30, 1967.

Mr. G. D. Zimmerman  
President  
Industrial Wire and Cable Co. Ltd.  
Index Road  
Toronto 18, Ontario

Dear Mr. Zimmerman,

Further to your telephone conversation with Mr. H. S. Rogers, we have been in touch with several companies who have promised to submit additional argument regarding the Bell Telephone Company's expansion into experimental and manufacturing practice, through its subsidiary Northern Electric Company, that is not associated with common carrier services.

The Telephone Company has, over the years, provided separate and divorced automatic intercom system, paging systems, push-button intercom systems and loudspeaking "press to talk" systems. In some cases, such as the "Magnaphone" system, the equipment has been designed and built by the Northern Electric Company and subsequently supplied to and installed by the Telephone Company.

These systems when installed are on a month to month basis at a very nominal monthly rate, *without* the benefit of a guaranteed period of time or even a formal rental agreement. Installation charges, to say the least, are minimal, irrespective of the number of pieces of equipment or extensive cable requirements and resultant high labour costs.

When one considers the engineering costs, tooling costs, material costs, labour costs,

together with factory overhead costs, administrative costs, sales costs, warehousing, interest and other related costs, we can only assume these costs must be recovered.

Without the benefit of a reasonable amortization of the above costs, and in view of the very low monthly rental figures with no appreciable installation charges for labour and cabling, who pays for these very uneconomical installations? Some installations have been terminated in less than six months from the date of original installation. We are familiar with some of these. How many more are there? Are the regular telephone subscribers of common carrier equipment expected to continue paying for this type of installation?

Of more recent date, the Telephone Company has entered into the educational market. Educational TV is yet another area where engineering, tooling, material, labour, overheads and other related costs, must be borne. Who, again, must bear these cost factors? The subscriber to common carrier equipment?

Since our company was established in Canada we have experienced, or, considerably more important, business and industry both large and small, have at one time or another experienced the very negative attitude adopted by the Telephone Company toward the private communication equipment companies.

For instance, conduits in new building construction are being "jammed" by the Telephone Company so that there is not sufficient



room for even a single pair of cable to be inserted, supposedly to look after every possible requirement that may be needed by the owner or tenant.

The conduits in new buildings as planned by architects and engineers are to provide the owner and tenant with adequate Hydro power requirements and adequate facilities for the Telephone Company service, together with teletype service, paging equipment, wiring, intercom and buzzer systems, etc., should they be required.

These conduits are bought and paid for, and are the sole property of the building owner.

However, should the owner or tenant suggest the installation of intercom wire, paging wire, teletype wire or any other use in the low voltage equipment area, *other than equipment provided by the Telephone Company*,

(i) the conduits have been "jammed" to capacity;

(ii) the subscriber is advised, "If any other cable is installed in *their* conduit, all Telephone Company cable will be removed and installed on surface areas.

This attitude was adopted at the Vickers Sperry Company of Canada and with BP Company office building. In addition, a visit to almost any office building will further substantiate these comments.

Is this *jamming* of conduit in this manner a form of *restricting trade practice*? Where conduits are jammed to capacity, *who pays* for the extra spare cable and labour? What right has the Telephone Company to *dictate* the use of conduit in a building which is not owned by them?

Through the years, tie lines or off-premises equipment connection lines to adjacent or remote buildings, have been requested by ourselves and our subscribers from the Telephone Company in order to look after expansion needs. These tie lines were flatly refused by the Telephone Company to the following business concerns: North York Hydro Commission (they constructed their own); Sparling Tank Limited; Unique Crests and Athletic Supplies; Anderson Pontiac Buick Lim-

ited; J. C. Allen Limited. Because of this negative attitude and refusal they were forced, in some instances at considerable expense, to construct their own cable requirements with the co-operation of the C.N. and C.P. Telegraph Companies. They have been forced to provide their own facilities in order to obtain the type of communications needed to efficiently operate their business.

However, many companies were not and are not prepared to make this type of capital expenditure. Why should they? The Telephone Company, but for their negative attitude, could supply and have available tie lines, which would be supplied if Telephone Company equipment were fitted. Some of these companies are: The Ports of Call, Marvic Press Limited, Art and Design Studio Ltd., Dominion Bridge, Honeywell Controls Limited, Ford Motor Company of Canada Limited, Canada Iron Foundries Limited, Contractors Machinery Limited, Automotive Hardware Limited, Dow Corning Silicones Limited, Rumble Motors Limited and Connecticut Chemicals Limited. These companies have been forced to accept less than their communications requirements because of the adamant refusals of the Telephone Company to supply tie lines, even though these companies feel it would be in their best interests. Is this yet another form of restrictive trade practice?

"Background" music as we have come to know it is presently played by industry and commerce alike. Thousands of dollars have been invested in central studio equipment in the past years. One of our competitors, to a much larger extent, has a considerable investment. Each year this side of our business continues to grow. Should the Telephone Company decide to enter this lucrative field of endeavour, as indeed they have entered other unrelated fields, what is to prevent them from "cutting off" tie line facilities from our studios to subscriber premises?

May we remind you that a few years ago the Telephone Company did not provide teletype services to their subscribers. Today it is

a major competitor of the two prime suppliers of this service, and is unrelated to their common carrier charter.

In summary, we can only feel that the Telephone Company preaches Customer Service, but in actual fact does not practise it. Preaches economical rates; but are they? Professes they are providing a public service, and practises restrictive trade.

The Telephone Company has a Government granted charter to provide telephone

service as a public carrier. They have encroached continually and ever-increasingly into the private communication market.

We will ask again, who is to pay for the ever-increasing Bell Research into unrelated fields of endeavour?

Yours very truly,  
T. R. Services Limited

V. H. Talbott  
Manager, Industrial Sales

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HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, NOVEMBER 7, 1967

Respecting

Bill C-104, An Act respecting The Bell Telephone Company of Canada

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WITNESSES:

*Representing the Canadian Federation of Mayors and Municipalities:* Mr. Lovell C. Carroll, Q.C., Counsel; Mr. Henry A. Lawless, Executive Director.

*Representing the Association of Ontario Mayors and Reeves:* Mr. J. Palmer Kent, Q.C., Counsel; Mayor Lester Cooke, Barrie; Mayor William Dennison, Toronto; Reeve Roger Prevost, North Plantagenet; Mayor Garnet Newkirk, Chatham, Ontario.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit. Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Chatwood,  
Mr. Deachman,

Mr. Emard,  
Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nowlan,  
(Quorum 13)

Mr. Orlikow,  
Mr. Pascoe,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—24.

R. V. Virr,  
*Clerk of the Committee.*

ORDER OF REFERENCE

FRIDAY, November 3, 1967.

*Ordered*,—That the name of Mr. Saltzman be substituted for that of Mr. Schreyer on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

TUESDAY, November 7, 1967

(8)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Chatwood, Deachman, Lessard, Macaluso, Orlikow, Pascoe, Rock, Saltsman, Sherman, Southam, Stafford (17).

*Also present:* Mr. Groos, M.P.

*In attendance: Representing the Canadian Federation of Mayors and Municipalities:* Mr. Lovell C. Carroll, Q.C., Counsel; Mr. Henry A. Lawless, Executive Director;

*Representing the Association of Ontario Mayors and Reeves:* Mr. J. Palmer Kent, Q.C., Counsel; Mayor Lester Cooke, Barrie; Mayor William Denison, Toronto; Reeve Roger Prevost, North Plantagenet; Mayor Garnet Newkirk, Chatham, Ontario.

The Committee resumed consideration of Bill C-104.

On motion of Mr. Cantelon, seconded by Mr. Byrne,

*Resolved,*—That Mr. Lessard be re-appointed Vice-Chairman of the Committee.

Mr. Lovell Carroll presented an oral summary of the brief on behalf of the Canadian Federation of Mayors and Municipalities. Thereafter he and Mr. Lawless responded to questions of the Members.

On behalf of the Association of Ontario Mayors and Reeves, Mr. Kent read their brief. The other representatives made additional statements and were questioned thereon.

On motion of Mr. Bell (*Saint John-Albert*), seconded by Mr. Chatwood,

*Resolved,*—That the brief of the Canadian Federation of Mayors and Municipalities be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-8*).

At 12.05 o'clock p.m., the meeting adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

(Recorded by Electronic Apparatus)

**Tuesday, November 7, 1967.**

• (9:50 a.m.)

**The Chairman:** Mrs. Rideout and gentlemen, before we resume consideration of Bill C-104 would someone move a motion to re-elect Mr. Lessard Vice-Chairman of this Committee. Re-election of the Vice-Chairman is a procedural requirement from time to time.

**Mr. Cantelon:** Mr. Chairman, it has always been my great pleasure to nominate Mr. Lessard, and I do so again.

**The Chairman:** I knew that, Mr. Cantelon, and I was waiting for your motion.

**Mr. Byrne:** I second the motion.  
Motion agreed to.

**The Chairman:** We have for consideration this morning a brief submitted by the Canadian Federation of Mayors and Municipalities on what is now Bill C-104, formerly Bill C-239. We have with us Mr. Lovell C. Carroll, Q.C., Counsel, and Mr. Henry Lawless, Executive Director.

Before hearing the brief I should point out to members of the Committee that the question of expert witnesses is now being looked into. We have received a letter from one consulting firm offering their services and this will be taken up with the Steering Committee.

Mr. Carroll, we will now hear your presentation.

**Mr. Lovell C. Carroll (Counsel for the Canadian Federation of Mayors and Municipalities):** Mr. Chairman, ladies and gentlemen, this is called a brief by the Canadian Federation of Mayors and Municipalities and it is as stated, a very brief brief.

When Bell sought by its Bill presently before your Committee to enlarge its powers we were concerned that such enlargement would be done without prejudice to the rights of the municipalities I represent.

Section 378 of the Railway Act gives substantial powers to The Bell Telephone Com-

pany of Canada and also to the municipalities. It refers only to telegraph and telephone lines. It does not refer to the word "telecommunication". On the other hand The Bell Telephone Company of Canada has sought through Bill C-239, which is now Bill C-104, to extend its powers to not only telephone and telegraph wires but to telecommunications and all our amendment seeks to do is to have the appropriate clause 11 of Bill C-104 amended by replacing the word "incurred" at the end thereof by the following:

"incurred; and Section 378 (except subsection 1) of the Railway Act shall apply to the Company insofar as line or lines of telecommunication are concerned."

That will mean that after that amendment has gone through...

**An hon. Member:** If it goes through.

**Mr. Carroll:** If it goes through—you will excuse counsel for being optimistic but I am because Bell Telephone has agreed to this amendment.

**The Chairman:** But that does not necessarily mean the amendment will go through, does it Mr. Carroll?

**Mr. Carroll:** No. However, if, as and when this amendment goes through it will mean that all the powers of The Bell and the powers and rights of the municipalities under section 378 of the Railway Act will extend not only to telegraph and telephone lines but also lines of telecommunication. That is all I have to say on that point.

Now subsequent to my mandate with regard to this point I was asked to write an opinion which I gave to the Canadian Federation of Mayors and Municipalities and I received no mandate to bring before the board any of the points contained in my letter until this morning. I now have a mandate from the Canadian Federation of Mayors and Municipalities to make a further point and that is with regard to clause 4 of the bill before this Committee relating to the repeal of section 2 of chapter 39 of the Stat-

utes of 1957, the purpose of this repeal being to allow Bell to issue its capital stock without any approval of the Board of Transport Commissioners for Canada as is presently required.

Now I have this to bring before the Committee on this point. The Board up to May 1966 allowed a permissive level of earnings in terms of dollars per share. In May, 1966 the Board changed the basis of regulation and stated that rates generating a rate of return of from 6.2 per cent to 6.6 per cent on total invested capital were just and reasonable. When the basis was so many dollars per share, that is \$2.43 per share from 1958 to 1966, the issue price of each share was of vital concern to the telephone subscribers. Now that the level of earnings is related to total invested capital, the issue price becomes more irrelevant. If shares are issued too low in price compared to past issues, the average invested capital is lower and, as permissible returns are based on total invested capital, the earnings per share may be lower but rates paid by subscribers will not be affected as they are predicated on the permissible returns on total invested capital. However, it may be that if Bell issues many shares to the public or its own employees at prices lower than they could have issued them having regard to all the circumstances and this resulted in lower earnings per share although Bell earned the same permissible return on total invested capital, the decline in earnings per share might result in such decline in market prices as would, in turn, result in a still lower price of issue and this, in the long run, might make financing more costly than it otherwise would have been and lead Bell to demand a higher rate of return which would require higher telephone rates. It would also appear that the terms of issue of any preferred shares should also be subject to approval by this Board. There is no dominion securities act to regulate the issue of securities by Bell. I am therefore of the opinion that clause 4 of Bill C-104 should be contested and I now repeat that contestation.

**The Chairman:** Mr. Carroll, when you say "contested" do you mean that in your view it should not be granted.

**Mr. Carroll:** Yes. The power to issue shares without the control of the Board of Transport Commissioners should not be granted. I might add that I have been counsel for the municipalities since 1950 in these cases and

this is my considered opinion arising from my experience over those years.

**The Chairman:** Thank you, Mr. Carroll. The witnesses are open for questions.

**Mr. Bell (Saint John-Albert):** On a matter of clarification, we also have, although it has not officially come before us, the brief from the Association of Ontario Mayors and Reeves.

**The Chairman:** They will follow right after the Canadian Federation of Mayors and Municipalities.

**Mr. Bell (Saint John-Albert):** The reason for my question is just for clarification. As the second objection you gave seems to be almost identical in words to what they have in their brief, has there been contact or communication between you?

**Mr. Carroll:** I think what happened is that after I gave my opinion to the Canadian Federation of Mayors and Municipalities that opinion was probably passed on to the other federation, as the result of which they prepared their brief. I think that is what happened.

**Mr. Bell (Saint John-Albert):** In other words, you do not feel that the directors and shareholders themselves would necessarily act in the proper way?

**Mr. Carroll:** I am not concerned with whether they do or not because it is difficult to set any board completely in charge of such a thing. All I am concerned with is that it may be that if these shares are fixed in fact lower than the market would otherwise indicate, there will be such a dilution of capital and although they will still earn on their invested capital the rate of return fixed by the Board, the earnings per share might decline and that would, in turn, in so far as the ordinary innocent investor is concerned, indicate a less attractive price and result in a decline in the market which, in turn, would lead to Bell having difficulties in financing.

Another thing I might mention is that under the law as it presently exists, before this Bill was brought before you, there was a provision in acts applying to the Bell Telephone Company that once the share price was fixed by the Board, then it became validly issued and you could not contest the consideration for which it was issued. They will no longer have that protection, and I am



very surprised that they have asked for this right.

• (10:00 a.m.)

**Mr. Bell (Saint John-Albert):** You are still at the whims of the market though, and you are just saying that the judgment of the Board of Transport should also be involved in decisions of this kind, in addition to what the directors and shareholders think.

Then I will ask one question, Mr. Chairman. The first point made by Mr. Carroll was his suggestion that the word "telecommunications" be added in this amendment. You are not in any way giving approval to this extra privilege that they want under telecommunications...

**Mr. Carroll:** No, no.

**Mr. Bell (Saint John-Albert):** ...it is just that you feel that this amendment should be made if it is made in the other case.

**Mr. Carroll:** Yes; I have no mandate on the other point.

**The Chairman:** Mr. Groos.

**Mr. Groos:** I was just thinking that it might be helpful—it would be to me at any rate—if you would run over that again. I think I understand it all right.

**An hon. Member:** Yes, that is a good idea.

**Mr. Groos:** Your statement suggesting that this should be repealed was based on the fact that there would be a cumulative effect on the depressing value of the shares if they were issued at below par rates based on the fact that the return is now based on the total investment.

**Mr. Carroll:** Well, frankly speaking, up to 1966 the Board fixed Bell's earnings at so much a share; it was \$2.43 a share. Thus, if they issued more shares than would otherwise be necessary, there would be a dilution of capital and the shareholders would have to pay for it. So it was therefore very logical to have the Board's permission as necessary in such cases; they would determine whether the shares were, as a matter of fact, issued at proper value in relation to the market price, the state of the market, and so on.

Since 1966 the Board has changed that method of establishing earnings, and it has fixed it from 6.2 per cent to 6.6 per cent return on the total invested capital. It would

therefore appear that it was immaterial whether there was a dilution of shares because if there were a dilution of shares Bell would still only be entitled to earn a maximum of 6.6 per cent on its invested capital; it would not matter how many shares were issued. But it might result in this situation: the dilution of shares, while it would not change the return on the total invested capital, might result in the issue of more shares than otherwise would be necessary. It would appear to the public then that the earnings per share were declining because there would be more shares to dilute the equity. If the public saw that the value of Bell shares went down on the market, it would assume that Bell's earnings were not adequate and would therefore be prepared to pay a less price in the market.

Now, if that were the case, then Bell might face difficulties in financing. As you know, they have, up to now for many years, issued rights to purchase stock to the present shareholders. The shareholders might consider that while Bell's earnings in invested capital remain constant, their earnings per share went down because of dilution of capital, and that they might pay a less price for their shares. It would therefore affect the market price, and it would therefore affect the return of Bell—the income which Bell received from the sale of its rights.

**Mr. Groos:** You seem to have had some consensus with Bell with regard to the first amendment that you propose.

**Mr. Carroll:** The first amendment, yes.

**Mr. Groos:** Have you discussed with Bell the suggestion that you are putting forth?

**Mr. Carroll:** No, I have contacted Bell for that, but I received only this mandate with regard to the second point just before I was called before the Committee.

**The Chairman:** Well, Mr. Carroll, concerning what Mr. Groos has said, I would point out to you that it is an oddity that a brief directed to this Committee has been forwarded to Bell—and I do not particularly mean Bell, but the opposite party presenting a brief. It is the usual practice of this Committee, and perhaps we should put this on record, that once briefs are sent to this Committee they are held confidential and not made public. In this particular case, it is not that it is so important, but it is a matter of procedure and practice. We make it a prac-



tice not to make public any briefs that are sent to this Committee until such time as the witness has presented them to the Committee. I hope in future this will be the case with all briefs; otherwise it will break down our system of confidentiality of briefs until they are presented by the witnesses themselves. We did feel that was an unusual practice in this case.

Are there any other questions?

**Mr. Cantelon:** I have a supplementary question with respect to this line of questioning. I am just wondering why Bell would follow a policy that, in effect, would cause it difficulty in financing?

**Mr. Carroll:** Well, in many years of contesting Bell's demands, I have often wondered myself why certain things were done. One of the main reasons why Bell is requesting this, I imagine, is because of the time factor. It takes time to prepare a brief to the Board to get their permission to sell stock—they may miss the market, and so on—and they feel that now the basis of providing for Bell's earnings is 6.6 per cent of invested capital, it is immaterial how many shares are issued. All I point out to the Committee is despite the fact that is true, it might cause a diminution in the earnings per share which would affect the public's consideration of the stock and affect the price.

**Mr. Cantelon:** I understand that very well, but you say the end result of this policy would be that it might make it very difficult for them to finance. Well, why would a board of directors and the Company management pursue a policy that might get them into that difficulty? I cannot see where there would be any particular advantage to Bell in causing a decrease in effect in the value of their shares.

**Mr. Carroll:** No, there certainly would be no idea that it would be done deliberately or anything like that, but markets are such—and they are getting more volatile all the time—that my feeling is that it would have this effect.

**Mr. Southam:** Mr. Chairman, could I add a supplementary question here to Mr. Cantelon's?

**The Chairman:** Well, we have had three supplementaries, Mr. Southam, but I will let you have one, although we do not make it our practice to allow too many supplementaries on one question.

**Mr. Southam:** Well, it follows through with what Mr. Cantelon said. If we recall, Bell Telephone were asking in their presentation to us for the right to sell preferred shares. Now, looking at this compared with common stock and what Mr. Carroll has pointed out, the diminutions, would there not be an interlocking factor there that with the diminution of common shares in value. The Bell could come back then, if they were granted this right for preferred shares, to ask for an increase in their rates to the public? Is there any connection in this?

**Mr. Carroll:** The Bell is always free to come before the Board and ask for an increase in rates and justify their application. I do not know whether they would do so merely because they have the right to issue preferred shares. I would think, on the other hand, that their right to issue preferred shares would result in their not asking for an increase, because to the extent that preferred shares were issued that would replace common stock that would otherwise be issued, and there would be less earnings required to service the returns on the preferred shares than on the common stock.

**Mr. Southam:** As a Committee, we have to think of the interests of Bell as well as the general public, and this is what I was getting at.

**The Chairman:** Mr. Stafford.

**Mr. Stafford:** I do not quite understand your point. Is it not correct that the money obtained from the sale of the shares, whether they are common or preferred, would be invested in the Company?

**Mr. Carroll:** Yes.

**Mr. Stafford:** And if it is invested in the Company there would be more invested capital, and since there is a fixed return their profit would be bigger too; I do not quite see your point.

**Mr. Carroll:** Well, I feel that anything which disturbs the minds of the investors as a whole in the value of a company stock on the market, particularly a decline in earnings per share, although...

**Mr. Stafford:** I do not quite see that point, though. How could it be a decline in earnings per share provided Bell used the money they obtained from the sale of these shares to invest in the Company? I do not see your point at all. I see it indirectly, but if they

invest this money back in the Company and they get their 6.6 per cent return, then naturally there is a bigger total profit even though it is divided up into more shares.

**Mr. Carroll:** Yes, but then they get a 6.6 per cent return on a greater number of shares than would otherwise be issued.

**Mr. Stafford:** But they are getting it on a greater number of dollars because there is more invested capital. I take it that Bell Telephone is putting this money into the Company, and since they are using all the money they obtain on the sale of the shares, there would be a bigger profit divided into more shares. Is it not the same thing as taking a smaller profit into a smaller number of shares? What difference does it make? I cannot see your point at all.

• (10:10 a.m.)

**Mr. Carroll:** If you have the same amount of dollars coming in—

**Mr. Stafford:** But you would not. You are using an analogy that just would not work, because you get more money. Bell Telephone is certainly going to make use of their full advantage here and take the percentage they are allowed of their total invested capital. They are certainly not going to take it as it existed before the last sale of stock.

**Mr. Carroll:** Perhaps you had better get advice from your accountants on the mathematics of this. I am persuaded that my intention is correct and that where you have a mass of money coming in, which is a return of some 6.6 per cent on total invested capital, it makes a big difference whether or not you divide that into so many shares. If you divide it into a greater number of shares then there is going to be a return of earnings to share less than there would otherwise be. I cannot do more to persuade you of that than I have already stated.

**Mr. Stafford:** Yes; but if Bell Telephone sells more shares they actually have more money to invest; and you will agree that the 6.6 per cent on the additional...

**Mr. Carroll:** They are selling it at a lower price.

**Mr. Stafford:** ...amount, added to what they had before, will give you a greater profit and that you are actually dividing that up in the number of shares?

**The Chairman:** The point concerning clause 4 that really needs clarification to me in your presentation, Mr. Carroll, is that you do not wish to see the Board of Transport Commissioners, or the new Canadian Transport Commission, released from the regulation about the selling of stock. Is that really the nub of it?

**Mr. Carroll:** Yes; that is it.

**Mr. Rock:** Mr. Carroll, this question has very little to do with your brief, but I would like to know whether there have been any complaints from municipalities regarding, say, the real estate tax or the valuation of The Bell Telephone Company's apparatus, lines and buildings?

**Mr. Carroll:** I know nothing about that. Perhaps Mr. Lawless can tell you. He is the Executive Director of the Canadian Federation of Mayors and Municipalities.

**Mr. Rock:** Yes; I know him very well.

**Mr. Henry Alan Lawless (Executive Director of the Canadian Federation of Mayors and Municipalities):** Mr. Chairman, if I correctly understand the question—please correct me if I am wrong—this matter may have relation to a particular situation that exists in the Province of Ontario as a result of the existence of section 13 of the Assessment Act of Ontario. That provides for a limitation on the extent of municipal taxation of Bell property, which is set, if I recall, at 5 per cent of 75 per cent of the Company's gross receipts. We, as a Federation, know that this situation exists in Ontario. We also know that it exists as the result of tax rental agreements between the Province of Ontario and the Government of Canada, made, I believe, in 1947. We know the situation is of great concern to municipalities in Ontario. It exists only in the Province of Ontario.

This is really all I can say on the matter. We know it does actually contain...

**Mr. Rock:** Is not the sales tax that is imposed on calls in Quebec equal to the assessment of the receipts in Ontario?

**Mr. Lawless:** My answer to that would have to be that I really do not know. I would have to look at it much more closely.

**Mr. Rock:** Do you feel that, say, the municipalities in the Province of Quebec are satisfied that The Bell Telephone are paying their fair share of assessment in taxes and



valuation on their apparatus and telephone lines?

**Mr. Lawless:** I certainly could not answer either yes or no to that.

**Mr. Rock:** I wish to come back to Mr. Carroll and this subject of the shares that we were discussing previously. Do you not feel that when The Bell Telephone Company, with the new powers, sell more shares this will be for the purpose of expansion, and, because they are expanding, they are going to make more money; and, therefore, the return on the shares will be possibly the same and perhaps even more than in the past? Do you not feel that the shares will drop because more of them are issued, but it is because of the need for the expansion of the Company with the growth of the country that they do need this finance and there will, therefore, be no foreseeable reduction in the value of, or the return on, the shares? There never has been before. They have always expanded.

**Mr. Carroll:** Well, no; if you examine the history of Bell you will see that there has been quite a change. It has varied from time to time. They have gone down from previous earnings. It is very idle, I think, to hypothecate any decision on the view that Bell will expand completely in an upward line, or that the country will. We have to deal here with the considerations or arguments you should normally apply to a situation as it exists.

I feel that if they were permitted to issue shares at any price they desired, without the control of the Board, there might be a situation where, theoretically, they would, due to the fact of a decline in business and recession, have to issue twice as many shares as would otherwise be the case in an expanding situation. That would result in extra money coming in. They would still have their same earnings and invested capital, but if you take that invested capital and dilute it by twice as many shares you are obviously going to have less earnings per share. I cannot see any other way out of that mechanical dilemma.

I have great hope in the future of Bell and it will undoubtedly grow with the country, but I cannot at the present time prophesy what effect that will have on the issue of shares.

**The Chairman:** Mr. Orlikow, I missed you previously.

**Mr. Orlikow:** Mr. Chairman, the question which I want to ask is not directly dealt with in this submission. Mr. Carroll, the discussion we have had may be very relevant to the submissions made by your organization to the Board of Transport Commissioners on the last occasion that Bell asked for an increase in rates.

**Mr. Carroll:** It was not for an increase in rates; they asked for a change in the method by which earnings would be calculated, from so much per share to so much return on total investment transacted.

**Mr. Orlikow:** In your submission, as I remember, you made the point that Bell, over the three or four years since their earlier request for an increase, which they were granted, had made substantially more than the Board had granted them and that they were really asking for a retroactive increase which they had already taken. Could you briefly summarize that? I think it is important in terms of what we do in the future.

**Mr. Carroll:** In the 1958 judgment, if my memory is correct, they were allowed \$2.43 per share. Subsequent to that, without any demand for a rate increase or for a change in the permissible earnings, they as a matter of fact earned more. That is what caused the Board, after a while, to call a full hearing on the method by which Bell shares should be calculated.

I appeared for the Canadian Federation of Mayors and Municipalities on that occasion. Bell were seeking a seven per cent return on overall invested capital, but we considered that they should be satisfied with a great deal less. We did not, however, contest the past increase in earnings which they had actually experienced above what they were allowed by the Board, because taking the earnings per share over a period of 10 years and averaging them out there were some years in which they had earned less than allowed by the Board, and we figured that, as a whole, it would be better not to contest the past.

Our conversation was, therefore, with regard to the future; and the Board held subsequently, in 1966, that the earnings should be between 6.2 and 6.6 per cent per share on total invested capital. That would mean, when you take into consideration that 40 per cent of their capital is in the form of bonds requiring a return of only 4.2 to 5 per



cent at the time, that over all their issues the return in equity would, of course, be greater, but not to the extent which they requested.

**Mr. Orlikow:** You say that they had been authorized to earn a return of \$2.43 per share. How much had they been making?

• (10:20 a.m.)

**Mr. Carroll:** I have not got the figures before me. However, Mr. de Grandpré, Vice President—Law, of Bell, is present. My memory does not serve me well but it was something like \$2.85 or \$2.80 per share, an amount substantially above what they were permitted to earn but, as I say, when you take Bell's lesser earnings in the previous 10 years it averages out to about \$2.43 per share, and for that reason we did not contest what had happened in the past.

**Mr. Orlikow:** Have you people looked at the earnings since the board approved the latest rate structure?

**Mr. Carroll:** Yes. I noticed the other day that in the latest quarter they earned 82 cents per share which, if you multiply that by 4 cents—which may not be correct because they have seasonal variations in traffic—would produce earnings of four times that, or \$3.28 per share. I do not know whether that is within the 6.6 per cent on the total invested capital which is set by the Board because we have no way of calculating that. That is done on the basis of an averaging out per month of the total capital, taking into account the bond and rate issues. I would think it was perhaps a little bit more than the 6.6 per cent. In situations such as these I do not think it is advisable for either the Board or the municipality to object when there is a slight variation above and beyond these invested interests.

**Mr. Orlikow:** But if the earnings over a period of a year or two or three are more than the allowable rate set by the Board, obviously there should be a reduction in rate charged to the consumer, should there not?

**Mr. Carroll:** Yes, that is right. That is why I suggested to the Board at the last hearing that there should be a public utility ombudsman appointed whose job it would be throughout Canada—it could even be set up province-wide or Canada-wide—to keep up a continuing survey on what is going on so that in this way they could represent the

public. At times the public is not represented adequately at any of these hearings. However, we are getting a little far afield.

**The Chairman:** Not really.

**Mr. Saltzman:** If I interpret you correctly, you believe the Board of Transport Commissioners should have a look at the issuing of shares. In the light of the history of the Board of Transport Commissioners, do we have any reason to be confident that their judgment will be any better than Bell's or would it even vary from Bell's?

**Mr. Carroll:** I have never been retained to oppose an issue of Bell stock as such or to state an opinion or produce witnesses as to the value of the stocks. Furthermore, I cannot form an opinion on the competency of boards. I may have my private opinion from time to time on certain boards but I am not referring to the present Board.

**Mr. Saltzman:** I would like to ask a general question. Suppose Bell were given the power that it seeks, that of buying other companies, and with that power they were to buy into companies that had heavy depreciations or tax losses and, as this would be reflected in their over-all position and in less return on capital, they would be getting an appreciation of assets for the long run although lower profit in the short run, and they then came to the Board of Transport Commissioners asking for an increase in rates on their telephone operations in order to bring them up to their allowable profit. Would this have an adverse effect on telephone users or do you see this as a possibility?

**Mr. Carroll:** That is quite a question. We had the same question arise in the case of the CPR respecting railway earnings and non-railway earnings. Up to the present I have been quite satisfied with Bell's earnings on its strictly non-telephone business. Northern Electric is a wholly-owned subsidiary of Bell and we tried to ascertain in the last rate case the exact proportions of earnings which Northern and Bell earned and were not able to get at these figures.

**The Chairman:** You were not able to get at the figures?

**Mr. Carroll:** No. At least not in any way that was satisfactory to us because of the technical point that Northern Electric is not really controlled by the Board even though it

is a wholly-owned subsidiary of The Bell Telephone Company of Canada. However, it was shown that in so far as the pay-out of Northern Electric is concerned on dividends to Bell the return which Bell was securing on such dividends was at least as high as the return which it was seeking in this total invested capital. Therefore, to the extent that those dividend payments—the returns to Bell from Northern Electric—were greater than Bell was seeking to secure from its subscribers, it was in the interest of the subscribers. If the reverse situation takes place or because of the acquisition of other companies The Bell Telephone Company subscribers are affected, then we would take some other view.

Bell, you see, only benefits from the dividends received from Northern Electric but from the fact that the earnings above dividends are ploughed back into Northern Electric and thus build up the value of Northern Electric. There are many considerations to be taken into account before a decision can be reached on what should be done. I would assume that eventually if Bell goes into many fields which are not very closely related to telephone subscribers as such that a situation will arise where there will be some call for a division of their business into purely telephone and non-telephone business. I do not see that for the immediate future.

**Mr. Saltzman:** You feel that can happen?

**Mr. Carroll:** Yes.

**The Chairman:** Under clause 8, what they are asking for now?

**Mr. Carroll:** Yes, it could.

**Mr. Saltzman:** I would like to pursue this a little further. I am not completely clear on your position. It is possible, though, if Bell wanted to trade off immediate growth for long-term capital appreciation that they could embark on a program of having, in effect, telephone subscribers subsidize the acquisition of other companies?

**Mr. Carroll:** Yes, I suppose such a situation could arise but I would think the opposite situation is more likely to occur, that they would be in a position to earn such high rates of returns on other than purely telephone business that it would really help the subscribers.

**Mr. Saltzman:** I agree that probably the opposite situation would arise, but let me put

this question to you. Do you think it is necessary to put some provisions in this Bill to make sure that Bell does not use its power to acquire other companies at the cost of the telephone subscribers?

**Mr. Carroll:** No, because I do not think such a provision can be worked out in general terms in order to have any significant meaning. I think the situation had better be left to the Committee, which meets from time to time on telephone matters, and to the Board itself. The Board might be requested by this Committee to ascertain from time to time the effect which Bell's operations that are not strictly telephone are having on the subscribers. Of course, in any rate case they would be looking into the question anyway.

**Mr. Saltzman:** But the Board, has no control on other than Bell's operation as such, is that not right? They do not have it on Northern Electric.

**Mr. Carroll:** That is true but the Board, while fixing rates under the law as it is now, is in a position where it can recommend to higher authorities what in their opinion

**The Chairman:** Unfortunately that has not been the case.

**Mr. Saltzman:** Is it possible to make a clear separation between the two kinds of activities to assure the public that this kind of subsidization will not take place, or will only take place when their earnings in the other areas are better than their earnings in the telephone operation?

**Mr. Carroll:** I think it would be very difficult from a purely technical point of view to define telecommunications in the sense that it is not telephone, and so on. From another point of view, Bell is constantly, and quite properly, experimenting in seeking what fields it should go into. It is a situation which is changing every day with advances in technology and that is why I think some flexibility is required at the present time. I have not formed any opinion on whether you should limit it or not but, as I say, it is a very difficult problem.

**Mr. Saltzman:** Thank you.

**Mr. Groos:** I am merely asking for an opinion. It seems to me that it is very difficult, regardless whether you are trying to calculate the earnings on an annual per share basis or on capital investment, to keep this a steady figure. And what period of time



would you yourself feel would be a fair period to average these out so that you could come up with a figure upon which you would then base your readjusted rates to your subscribers?

• (10:30 a.m.)

**Mr. Carroll:** It is very difficult to assess what the period should be. Again you need great flexibility. You may have a five-year period in which there are tremendous dynamic changes in the growth of the Company and another period where it is practically stagnant. You cannot fix any period. The Bell Telephone from time to time finds it is not earning enough so it applies for rate increases. That brings it to a head. In the last case The Bell did not do that but the Board felt that they had received permission to earn \$2.43 a share in 1958 and were certainly earning more and that it was time for a rate matter. And again I say the public should be protected by a public utility ombudsman who constantly has his finger on it. You cannot expect municipalities to do it. It is not really part of their role at all.

**The Chairman:** Would you not say a communications committee would have more power than a public utilities ombudsman—a government agency like the FCC in the United States?

**Mr. Carroll:** No, I think a public utilities ombudsman would. His job would be to ascertain from day to day just what was going on in public utilities throughout the country.

**The Chairman:** Well, the FCC is a public utility ombudsman really, is it not?

**Mr. Carroll:** No.

**Mr. Groos:** If I could just continue with my questioning, Mr. Chairman.

**Mr. Carroll:** It is like the present Board. It is in the position of being judge, and it is very hard to be both judge and prosecutor at the same time.

**Mr. Groos:** So you would say that this was a weakness of the old system; that there was no sort of base time period in which to fix this.

**Mr. Carroll:** That is right.

**Mr. Groos:** And the weakness has not been changed by the change that was made last year.

**Mr. Carroll:** No. I think there should be a more regular review of these situations but it can be brought to a head by a public utility ombudsman whose job it would be to see if they are earning too much, or too little or if certain changes are required. Perhaps their non-telephone business is acquiring such proportions as to prejudice telephone subscribers and it is very hard for a board to act as both judge and prosecutor at the same time.

This applies to railroads, it applies to pipe lines, it applies to everything that is regulated by public funds.

**Mr. Groos:** This may be an unfair question, so please say so if it is. Have you any idea how the earnings of Bell, with respect to their telephone system, compare with the earnings of other telephone companies across the country?

**Mr. Carroll:** In the case of B.C. Telephone the Board fixed approximately the same maximum rate of 6.6 per cent on the total invested capital. Is that not true, Mr. de Grandpré?

**Mr. A. J. de Grandpré (Vice-President, Law, The Bell Telephone Company of Canada):** Yes.

**Mr. Carroll:** Other telephone companies, at least a great many of them, do not come under the Board.

**Mr. Groos:** Yes, they are private.

**Mr. Carroll:** They come under provincial boards and so on. And there, I cannot tell you what the earnings are.

**Mr. Groos:** Where they would pay no taxes at all, if they are provincially owned.

**Mr. Carroll:** No. Not necessarily provincially owned. They are all owned by individuals and they pay regular taxes so far as I know.

**Mr. Groos:** I think some of them are owned by provinces, are they not? Therefore these provincial companies pay no...

**Mr. Carroll:** I can tell you what I know about Quebec. There are a great many private telephone companies in Quebec. So far as I know they pay taxes but I do not think their rates are regulated nearly as much as the Board of Transport Commissioners regulates.

**Mr. Groos:** Thank you, Mr. Chairman.



**The Chairman:** Mr. Deachman. I will come back to you later, Mr. Rock. We are getting too many supplementaries.

**Mr. Deachman:** Mr. Chairman, I just want to return for a second to this ombudsman theory. Are you suggesting, sir, that you would have a structure which would consist of the new Transport Commission which regulates Bell and then you would have an ombudsman over the top of that? I hope you know what the Transport Commission is doing.

**Mr. Carroll:** No. I will tell you what the situation is exactly.

**Mr. Deachman:** Who would he serve?

**Mr. Carroll:** I will tell you what the situation is exactly. In the cases I have acted for the public vis-à-vis The Bell Telephone Company since 1950, I am appointed perhaps two weeks before the case starts and I have to ask for an increase—I have no staff, I have no accountants, I have no experts or anything at all. Sometimes nothing is done. There should be a Board of Transport Commissioners, or whatever you are going to call it, which is going to decide on the regulations.

**Mr. Deachman:** We have that now.

**Mr. Carroll:** You have that now. What you need is a public utility ombudsman with a staff of accountants lawyers and professional experts who, like the various boards which regulate rates throughout Canada, have a function of representing the public and studying the situation as it arises. Then if they come to the conclusion that Bell, or some other regulated utility, is earning too much, they step into the picture. They make an application to the proper board, they have a rate hearing, and they move in with the rate hearing.

In the States that is sometimes done by the Commission themselves. They have Commission counsel, Commission experts who are under the Commission but still apart from them. They have the right to cross-examine witnesses. Our boards do not have counsel to cross-examine. They have counsel to advise but very few of them have counsel to cross-examine. You need a judge, the board which will regulate it, and you need a public utility ombudsman to represent the public to see that the public interest is carried out; it is made clear at these hearings.

**Mr. Deachman:** When the Transport Commission was established—and almost all the people who are in this room today were sitting here when that Board was established—it certainly was made clear time and time again by those who were involved, the government, that the establishing of that board was for the purpose of protecting the public, and not for protecting common carriers and pipe lines and the like and regulating them per se. It was there to look after the public interest. This was written right into the Act. Now you are suggesting that what we need is something else to look after the man who is looking after the public interest. I think you are just piling regulator on regulator. That is all I have to say, Mr. Chairman.

**Mr. Saltzman:** Am I correct in assuming that you do not think that the Board of Transport Commissioners is now acting in a way that protects the public interest and that you are therefore calling for an ombudsman to do this job?

**Mr. Carroll:** Not at all. In my experience with the Board of Transport Commissioners down through the years I have found them very dedicated and competent and doing a first-class job, but they have these limitations. They have the limitations of staff. They have a tremendous jurisdiction over many, many other varied activities apart from The Bell Telephone Company of Canada and I think that when counsel, like myself, intervene in these cases the Board is greatly helped because we bring in independent witnesses, independent arguments and so on. If you have nobody whose interest it is to represent the public then you have a hearing where nobody acting for the public cross-examines any of the witnesses for example; nobody representing the public brings additional witnesses and experts in to oppose those of The Bell if that is necessary. And that is true, I think, of every regulated...

**Mr. Saltzman:** Do the Board of Transport Commissioners not have this power now? Do they not have the power to do exactly the things that you suggest should be done?

**Mr. Carroll:** I think they have powers to call on expert witnesses and counsel and so on, but I do not know whether their staff and their budget is large enough to encompass that.

**Mr. Saltzman:** Well, they have the power to ask for a larger budget and for the experts that they require, do they not? There is nothing inherently there that would prevent them from doing this.

**Mr. Carroll:** No, but they are governed by the traditions of the past and this has never been done in Canada.

**The Chairman:** Excuse me, Mr. Saltzman. When you say cross-examination, is that not a pretty poor procedure? From evidence given to this Committee already evidence is produced to the Commissioners, and other adversary parties do not have a chance to see this evidence and cross-examine on evidence that is presented in camera to the Commissioners.

**Mr. Carroll:** No. My experience of The Bell has been just the opposite. Long ago Bell counsel and I agreed to exchange...

**The Chairman:** I am not speaking of The Bell. I am speaking of such a policy, Mr. Carroll. Perhaps we are getting too far into the mode of operation of the Board of Transport Commissioners in that.

**Mr. Carroll:** All I know is that in The Bell Telephone hearings, we exchanged printed copies of the testimony given weeks before and prepared a cross-examination from them, which leads to a very good type of cross-examination.

**The Chairman:** There are those of us who think the procedure followed by the Board of Transport Commissioners is very wanting and who hope for a new procedure and new CTC, Mr. Saltzman.

**Mr. Saltzman:** Mr. Chairman, what I am trying to establish—and I hope Mr. Carroll will help me in this—is whether there is something unsuitable in our present arrangements with the Board of Transport Commissioners in terms of acting as a public ombudsman, and therefore we have to have another office created, or whether it is simply for one reason or another...

● (10:40 a.m.)

**The Chairman:** Mr. Saltzman, the Board of Transport Commissioners no longer exists as such. It was absorbed by the Canadian Transport Commission; it is the Railway Committee of that Commission now.

**Mr. Saltzman:** You are asking that a public ombudsman be created to do the work that the Board of Transport Commissioners was supposed to have done in the past?

**Mr. Carroll:** Not at all. The Transport Commissioners primary job is to act as a judge in these matters and determine what the rate should be. I suggest that its functions as judge be maintained, but its functions as Crown Prosecutor or counsel and so on, be replaced by somebody whose position is entirely different, a public utility ombudsman.

**Mr. Saltzman:** How would this ombudsman acquire the information necessary to perform his function?

**Mr. Carroll:** He would have the same rights as the Board to go into the regulated utility with his accountants from time to time and ascertain what the facts are and his counsel and various other members of his staff, the same way as the Board.

**The Chairman:** A very interesting proposition.

**Mr. Saltzman:** And this access to those records would be sufficient to enable him to make a judgment on behalf of...

**Mr. Carroll:** No, that same public utility ombudsman would also, I presume, through its economist be aware of all the judgments and all rate commissions throughout the States and throughout Europe, and be aware of the latest developments in regulations of utilities. He would be in a position to ask expert opinion from time to time as to what should be done. Now it is just left to municipalities to intervene.

**Mr. Saltzman:** My final question...

**Mr. Carroll:** It is a ridiculous situation, it is no part of the real constitutional obligations.

**Mr. Saltzman:** Who should set up this ombudsman? Who should be responsible for his actions?

**Mr. Carroll:** The Parliament of Canada for the regulated utilities that come within his scope, such as telephone, pipe-lines and so on, and the provinces for the regulated utilities that come within their jurisdiction.

**Mr. Saltzman:** Thank you.

**Mr. Sherman:** Could I just ask a supplementary?

**The Chairman:** Well, I have Mr. Rock on a supplementary.

**Mr. Rock:** Yes, I would like to continue on the question that Mr. Groos raised. . .



**The Chairman:** One supplementary, Mr. Rock; that is the only reason I am giving you the floor right now.

**Mr. Rock:** Yes, definitely . .

**The Chairman:** Oh, I thought you were going to continue, you know.

**Mr. Rock:** No, it is regarding the question by Mr. Groos. First of all, let me put it this way: Both in Quebec and Ontario and in other provinces, not including the Prairie Provinces, the telephone companies pay municipal taxes. Do you know whether in the three Prairie Provinces, because these telephone companies are owned by the provinces there, the provincial telephone companies pay any taxes to the municipalities?

**Mr. Carroll:** I cannot tell you, sir.

**Mr. Rock:** You would not know either, Mr. Lawless?

**Mr. Lawless:** The answer to that is that in some provinces I believe the situation would be where the telephone operations are a provincial utility, grants in lieu of taxes would be made to the municipalities by the government.

**Mr. Rock:** Do you feel that there are grants in the Prairie Provinces regarding the telephone companies?

**Mr. Lawless:** I have the means to check this, but I believe this is so, yes.

**Mr. Bell (Saint John-Albert):** I just want to ask Mr. Carroll whether what some of us have proposed for quite a while in these Committees—and it is on the record—would not satisfy him, at least to some extent, and that would be greater parliamentary control of these utilities companies over which we have jurisdiction, and a review every five years, say, with a full professional staff to be separate from the company itself and the Department, and under complete control of this Committee. Would this satisfy you?

**Mr. Carroll:** Yes, but it still remains very anonymous. I prefer that they be exposed to the office of a public utility ombudsman whose very function would be to represent the public utilities.

**Mr. Bell (Saint John-Albert):** For example, now . . .

**Mr. Carroll:** The Board is in a very difficult position to act both as judge and a

representative of the public at the same time. It is a very difficult position.

**Mr. Bell (Saint John-Albert):** Well, for example, Industrial Wire and Cable worried about this loss of the board over the regulatory control. But they were concerned not so much about the shareholder, but that the Company might deviate from its objects and purposes. They thought that the Board of Transport Commissioners, or someone through parliamentary control, should ensure Bell adheres to these. Is this a worry of yours, or are you mainly concerned with the shareholders?

**Mr. Carroll:** I have no mandate with regard to the expansion of Bell's powers.

**The Chairman:** Mr. Sherman has a supplementary question, and then we do have The Association of Ontario Mayors and Reeves with us this morning, gentlemen.

**Mr. Sherman:** I would just like to ask Mr. Carroll a question, Mr. Chairman. With its obvious interest in questions pertaining to transportation and communications, did the Canadian Federation of Mayors and Municipalities, either through you or any other officer, ever make a formal proposal to the government at the time the new Transportation Bill which was recently enacted was being drafted, and that legislation was being created and constructed? Did the Federation of Mayors and Municipalities ever propose that there be a public utilities ombudsman established?

**Mr. Carroll:** I do not think so, but in my final address to the Board of Transport Commissioners in the 1966 case I spent some time on that point and recommended that the Board recommend to Parliament the creation of a public utility ombudsman.

**Mr. Sherman:** But to your knowledge this proposal was never followed through or never articulated at the time the government was working on a draft of the legislation?

**Mr. Carroll:** No.

**Mr. Sherman:** Thank you.

**The Chairman:** I want to thank Mr. Carroll and Mr. Lawless for being with us this morning and presenting a brief on behalf of the Canadian Federation of Mayors and Municipalities. Thank you, gentlemen.

We will now move to the submission on behalf of The Association of Ontario Mayors



and Reeves. We have some other distinguished witnesses with us.

We have with us this morning, to present a brief by The Association of Ontario Mayors and Reeves, to my immediate right Mr. J. Palmer Kent, Q.C. Counsel; to his right is His Worship, Mayor Lester Cooke of Barrie, Ontario; to his right, Reeve Roger Prevost of North Plantaganet and to his right, at the end, is His Worship Mayor Dennison of the City of Toronto.

Gentlemen, we are very pleased to have you with us—a very distinguished group of very important mayors and reeves. Mr. Cooke please?

**Mayor Lester Cooke (Barrie, Ontario):** The Association of Ontario Mayors and Reeves: Thank you, Mr. Chairman, lady and gentlemen. First of all we want to express our appreciation to you for this privilege of coming before this Committee to present the position taken by The Association of Ontario Mayors and Reeves representing some 600-odd mayors and reeves and, in the case of members here, 550 of those were represented at the meeting that empowers this group. Our concern, of course, principally is that as The Bell Telephone Company has the privilege of conducting its business within the municipalities it is considered to be a matter of interest to the municipalities, and our Counsel, Mr. Palmer Kent, will enlarge on our reasoning in this field. I think that very well expresses my introductory remarks, Mr. Chairman.

**The Chairman:** Thank you, Mayor Cooke. Mr. Kent?

**Mr. J. Palmer Kent Q.C. (Counsel for The Association of Ontario Mayors and Reeves):** Mr. Chairman, ladies and gentlemen, I think it will save a little time if I may be permitted to read this brief.

**The Chairman:** Yes, you may so long as it is a short brief.

● (10:50 a.m.)

**Mr. Kent:** I think it answers a number of questions and it presents our position. I should explain that this matter arose last spring when this Bill was before the House of Commons and was brought to the attention of the Executive of The Association of Ontario Mayors and Reeves. After considering it very carefully they brought it to their annual conference.

At the 1967 annual conference of The Association of Ontario Mayors and Reeves held on May 14, 1967, at Niagara Falls, the following resolution was submitted on behalf of the executive and was carried unanimously.

WHEREAS The Bell Telephone Company of Canada has introduced a private Bill in the House of Commons to increase its Capital Stock, to authorize it to issue Preferred shares, to authorize it to enlarge its powers and scope in Canada or elsewhere, having regard for radio, television or other means of telecommunication and for other matters; and

WHEREAS Section 4 is an amendment to allow the Company to issue its Capital stock without the approval of the Board of Transport Commissioners for Canada; and

WHEREAS your Executive recommends to this Association that steps be taken to express objection to this Bill

THEREFORE BE IT RESOLVED THAT the incoming Executive be authorized to make such representations as they deem advisable to oppose this Bill before the Committee of the House of Commons in order to protect the interests of subscribers.

Membership in the Association consists of 649 municipalities which contain about 93 percent of the population of the Province of Ontario. Each member municipality is entitled to be represented at the Conference by the elected head of the Council, the Mayor, Reeve or Warden and at this conference 550 municipalities were so represented.

This Association appreciates fully the importance and value of the service rendered by Bell to the citizens of Ontario. These services are rendered in Ontario and Quebec and there are now close to five million telephones in the Bell System—I think it has passed this now. The Company is not a public utility but it has practically an exclusive franchise to operate in these provinces. Because of this and because of the extensive use of the public streets and highways for communication purposes, the municipalities have been required traditionally to represent the subscribers and to see that the slight limitations imposed by Parliament on its powers are observed and not exceeded.

In 1929, when Parliament authorized an increase in the capital stock of the Company from \$75 to \$150 million it required that the

issue, sale or other disposition of such capital stock must be subject to the approval of the Board of Railway Commissioners for Canada as to the amount, terms and conditions of such issue. Again in 1948, Parliament approved a further increase but subject to a similar approval by the Board of Transport Commissioners for Canada. Again in 1957, when authority was obtained for a further increase in the capital stock up to \$1 billion divided into shares of the par value of \$25 each, the following section was included—this is the 1957 Statute, chapter 39, which the present Bill is now asking should be repealed and no section be substituted for it.

Our consideration is that this section 4 should not only be taken out of the Bill but that a similar section to this section of the 1957 Act should be included. The section read:

The Company shall not have power to make any issue, sale or other disposition of its capital stock, or any part thereof, without first obtaining the approval of the Board of Transport Commissioners for Canada of the amount, terms and conditions of such issue, sale or other disposition of such capital stock. Subject to any applicable legislation relating to the issue, sale or disposition of securities by corporations, the issue, sale or other disposition of capital stock by the Company in accordance with such approval shall be legal and valid.

The Bill now before the House of Commons and your Committee, by section 4 asks that this section of the 1957 Statutes be repealed and no similar section is included in the new Bill. Thus the Company is asking that it be allowed to increase its capital stock on the votes of the shareholders represented at an annual or special meeting called for considering the resolution without the approval of the Board of Transport Commissioners.

This is the principal provision of the new Bill to which this Association objects and it submits its reasons for this objection on behalf of all subscribers and municipalities in Ontario. Before outlining these reasons, however, it is essential to summarize some of the other provisions for which the approval of Parliament is requested.

Section 2, of course, is to provide for an increase in the authorized capital stock from \$1 billion to \$1.75 billion.

Section 3 would authorize the Company to issue preferred shares with such preferences as may be sanctioned by  $\frac{2}{3}$  of the votes cast at a special meeting of the common shareholders and without section 162 of the Canada Corporations Act applying.

Section 6 is to issue bonds on a similar vote instead of by a vote of  $\frac{2}{3}$  in value of the subscribed stock as it formerly was.

Section 7 is a section which authorizes an extension of the Company's power to enable it to enter into all forms of telecommunication, including the enlarging field of radio and television transmission.

Section 8 would give the Company power to invest in other companies having objects in whole or part similar to those of Bell. If approved the Company could invest in any business in the field of radio, television, Telstar, or any of the ramifications of these to be developed in future.

Section 11 would give the Bell power to construct, erect and maintain its lines of telecommunications along public highways and waterways as it could do with telephone lines, subject to the approval of the Board of Transport Commissioners as to the height of wires only. The only jurisdiction the Board would have would be with respect to the height of wires over this extension.

Section 12 is power to make loans to an employee, even though he may be a shareholder.

Section 13—power to provide housing for employees.

Section 14 is authority not to comply with the provisions of the Canada Corporations Act or provincial statutes regarding information in prospectuses.

The Company submits in the explanatory notes in the Bill and in its brief submitted to your Committee at page 42, that the approval of the Board of Transport Commissioners for the issue of the Company's capital stock is redundant and should be discontinued. With this submission, this Association cannot agree for the following reasons:

1. If Bell issued many shares to the public or to its own employees at lower prices than the market value or if they used the additional capital to invest in other companies, and any of these actions resulted in lower earnings per share, although Bell earned the permissible return on total invested capital, the



decline in earnings per share might result in such decline in market price as would cause Bell to demand a higher rate of return to be obtained only through higher telephone rates.

2. With the new authority to issue preference shares with such preferences and conditions as the shareholders present at a meeting might approve, it seems only reasonable that this authority should only be granted subject to the approval of the Board of Transport Commissioners. The federal government has no securities act and this Bill is asking that it should not have to comply with section 162 of the Canada Corporations Act. The authority given to it by the Government of Canada may mean that it is not required to comply with provisions in provincial securities legislation. Because the Parliament of Canada has no information about the special rights, conditions, or limitations connected with the issue of preferred shares, it can only protect itself, the common shareholders and the subscribers, by insisting that the issue of preferred shares be subject to the Board's approval.

• (11:00 a.m.)

3. CATV, as Community Antenna Television is commonly called, is a relatively new and rapidly growing industry which might be compared to the advent of the telephone. It includes any facility which receives and amplifies the signals transmitting programs broadcast by one or more television stations and re-distributes such signals by wire or cable to subscribing members of the public. The possibilities for CATV are as large as one's imagination. At the present time, there is use of micro-wave relays and other methods so that distant stations even across the ocean by means of Telstar communications satellite can be brought to a community and distributed by wire to television sets. By this Bill, the Canadian government would be giving Bell a franchise to invest in and operate a vast field of telecommunications and such enterprises should not be at the expense of telephone subscribers. It may be quite possible for it to justify such expenditures for research and investment at a public inquiry such as the Board of Transport Commissioners

would conduct and it should have some responsibility for satisfying the public that telephone rates are not likely to suffer. Provincial legislation relating to franchises require votes of the people and these rights would be lost by this legislation. In the United States, the Federal Communications Commission exercises general jurisdiction over CATV matters. In Canada, the Board of Transport Commissioners should lay down some rules regarding the investment by Bell in such enterprises.

4. By the provisions of the Railway Act, the Board will continue to have jurisdiction with regard to rates payable by subscribers. The Board has exercised this jurisdiction by fixing a level of earnings per share. From 1958 to 1966, the basis for this was \$2.43 per share, but when the earnings of the Company exceeded this figure for several years, there was little action that subscribers or even the Board could take to require lower rates. Instead the Board initiated a hearing (in which this Association participated at considerable expense) to determine what the level of earnings should be, having regard for the current economic situation. As a result, in 1966, the Board stated that rates generating a rate of return from 6.2 per cent to 6.6 per cent on total invested capital were just and reasonable. This Association does not agree with the submission by Bell that this change makes the approval by the Board of capital issues redundant and unnecessary.

5. When giving broader and extensive authority to the Company to enlarge the scope of its operations, the powers of the Board of Transport Commissioners, which represents Parliament and the public, should not at the same time be weakened.

6. In the case of all municipalities in Ontario, it is their capital expenditures that are subject to the approval of the Ontario Municipal Board. This is required to protect all ratepayers by ensuring that a municipality does not get into difficulties by borrowing too much money. It is obvious that rates can be affected by the issue of capital stock or the terms on which such stock is issued. In many respects it is more important to



have restrictions on capital issues than on approval of rates, because rates can be regulated by rules such as fixing the level of earnings. It is submitted that it is most necessary that the Board should maintain control not only of rates, but also of issues of capital in order to provide some protection for telephone subscribers.

All of which is respectfully submitted on behalf of the telephone subscribers and the municipalities of Ontario.

Mr. Chairman, I would like to add one or two further remarks to what I have said. On three previous occasions, in 1929, 1948 and 1957, The Bell Telephone Company of Canada made application for power to increase its capital stock. Parliament approved of this provided the issue of shares was first approved by the Board of Railway Commissioners—later called the Board of Transport Commissioners—as to the amount, terms and conditions of sale. I suppose it would now be called the Canadian Transport Commission, which is the new body that has been formed for that purpose.

When it now asks for a large increase in its capital stock or power to issue preference shares, although nearly forty million common shares are currently in issue, or power to extend its powers into all phases of telecommunications and to invest in any companies in these fields of industry, it asks for elimination of restrictions. Since 1929 and under this limitation it has not been prevented from growing and prospering. So far as I know, no municipality has ever attended before the Board of Transport Commissioners to oppose an application by The Bell Telephone Company of Canada for approval of the issue of additional capital stock. This is not the point. A municipality or a subscriber could have attended and objected if there was a reason for so doing but it was felt that the Board of Transport Commissioners could be relied upon to do its duty to protect the public. The very fact that Bell had to present its application constituted a check in the best interests of the public. Under the proposed act, when Bell may be entering into entirely new fields of business, it should not be permitted to risk large amounts of new capital without interested parties being given an opportunity to object.

I submit that clauses 7 and 8 of the proposed act are much too broad and extensive.

They could greatly extend the scope of the Company's power. I do not know definitely what your Committee may wish to do in order to restrict them, but they should also be made subject to the approval of the Board of Transport Commissioners for Canada or the Transport Committee of the Canadian Transport Commission. If I may refer to clause 7, it reads:

It is hereby declared that subject to the provisions of the *Radio Act*, and of any other statutes of Canada relating to radio and radio broadcasting, . . . the Company has the power to transmit, emit or receive and to provide services and facilities for the transmission, emission or reception of signs, signals, writing, images. . .

and so forth. If they were only going into the telecommunications field, that is, the transmitting of services for television, then the words in the fifth line, "...to transmit, emit or receive..." and also in the sixth and seventh lines, "...emission or reception..." could be struck out, so the clause would then read:

. . . the Company has the power to provide services and facilities for the transmission of signs, signals, writing, . . .

and so on, but the clause itself goes much beyond that. It would even allow them to go into the very lucrative field of television advertising and even the manufacture of television sets would not be beyond the scope of this, or any other extension of that field. It is a very wide clause as it is presently worded.

• (11:10 a.m.)

Clause 11 is a clause which provides that the Company may affix all these lines of telecommunication to its telephone poles which are now on the highways of our municipalities. Certainly it was in the interests of the public that they should have some power to erect telephone services on the highways and now they can use the same poles and thus be in a position to have an almost exclusive franchise to get into this field. It would be very difficult for a private company in the telecommunication business to compete with a telephone company, that could use the poles on all of the highways of the municipality. It is submitted that clause 11 should not be passed unless the Company

consents to those changes in the Assessment Act which limit the amount of taxes that a municipality may collect from a telephone company.

Some reference was made previously to the tax provisions, and I would like permission to refer to them briefly, Mr. Chairman. So far as we are concerned, the situation is probably a matter for the Government of Ontario, but we applied previously for the repeal of Section 13 of our Assessment Act, which gives Bell Telephone a limited tax feature, and we have always been met by the provincial government saying, "Oh, we are subject to these tax-sharing agreements". The Federal-Provincial Fiscal Arrangements Act is the name of the statute, but I was assured before coming here that that restriction on the provincial government had been removed, so that it is probably mainly a matter for the provincial government to amend the Ontario Assessment Act so that The Bell Telephone Company would no longer get the same fixed assessment on its capital earnings.

As I think you are aware, the Company in Ontario is assessed in the regular way in respect of its land and buildings. In addition to that the Company is required to make a return of the gross receipts from the business conducted in each municipality, that is in the cities, town and villages. They make a return on what they received the year previous to the assessment and they are assessed on a percentage of that. In some municipalities the amount of assessment is 60 per cent of their gross receipts. In the case of the City of Toronto the figure is 75 per cent. If the municipality of the City of Toronto applies its commercial tax rate, which is in the neighbourhood now of something over 90 mills on the dollar, it would obtain a substantial return, of course, and The Bell would be paying in a manner comparable to other industries.

However, section 13 in the Assessment Act says that the amount you can assess against The Bell Company shall not exceed 5 per cent of its gross receipts. That, in effect, means that if any municipality's tax rate goes above 66 $\frac{2}{3}$  mills then no more taxes above that can be levied against The Bell Company. As I explained, that is really a matter for the Ontario government but I felt since it was raised that I should mention it here. I think it pertains to this because in

this Bill, if it is passed, they are getting a much more exclusive franchise to go into a very much larger field and make use of all the public streets for the purposes of their business. In that respect they are not like a railway that has to buy a right-of-way and so forth. Their right-of-way is a public street for which they do not give compensation. The compensation the municipality receives is only in the taxes. We do not want to stop them using the streets, of course, because they are providing a service to the public but we think that the municipalities should have reasonable compensation for that use.

The only other thing I wanted to mention in conclusion, Mr. Chairman, was with respect to the interests of this Association in this Bill. We are completely disinterested except that municipalities traditionally have been the sort of guardian of the ratepayers. When the Board of Transport Commissioners found recently that The Bell Company was exceeding its own orders for several years in a row the Board called a hearing of its own. The only thing it could do was to call a hearing. It has no enforcement powers, really, against The Bell Telephone Company. It can institute proceedings and so it directed The Bell to come before it to state what its level of earnings should be. For several years their earnings were above the \$2.43 which was the order of the Board at that time. The municipalities were invited to participate on the other side.

So even back in 1902, as stated in the Bell act, the rates at that time were fixed by the Governor in Council; in other words fixed by Parliament or by the Cabinet. Section 3 says:

The rates for telephone service in any municipality may be increased or diminished by order of the Governor in Council upon the application of the company or of any interested municipality, and thereafter the rates so ordered. . .

So the municipalities over the years have been the only ones in existence who can take up any dispute or matter they think is wrong in the operation of The Bell Telephone Company, and the only place to which they can take a dispute is the Board of Transport Commissioners.

Our sole interest is to protect the public and in that respect we are in exactly the same position as members of this Committee. The heads of the various councils, the mayors who are here, have the same duty to see



that the public is protected as members of the House of Commons have.

While The Bell Telephone Company is now providing services in Ontario and Quebec the granting of these extensive powers would enable it to extend to all provinces and to places beyond Canada. Our plea to the members of this Committee is not to grant these extensive powers without the necessary limitations to protect the public which is vitally interested in anything that may occur in the future. Thank you, Mr. Chairman.

**The Chairman:** Thank you very much, Mr. Kent. Perhaps the reeves or mayors have some comments to make at this time.

**Mr. Cooke:** Mr. Chairman, we have with us Reeve Roger Prevost. We realized earlier that copies were available in French. Reeve Prevost is one of our representatives and I would like to call on him at this time.

• (11:20 a.m.)

(Translation)

**Mr. Roger Prévost (Reeve of Prescott and Russell Counties):** Mr. Chairman, Gentlemen, inasmuch as The Bell Telephone Company has acquired enormous powers, section 4 of Bill C-104 should be examined and amended with a view to protecting the interests of the public. In fact, if the company obtains all these powers, other companies of the same type would be put in a precarious position and that is the reason why we are opposed to the passage of section 4 of the Bill. In truth, this company possesses too many advantages that other companies do not have. The companies should be subject to the same controls and enjoy the same privileges as recognized by the Department of Transport. Thank you.

[English]

**The Chairman:** Thank you, Mr. Prevost. Mayor Dennison, would like to make a statement at this time?

**Mr. William Dennison (Mayor of Toronto):** Mr. Chairman, gentlemen, one of the objects of Bill C-104, an Act respecting The Bell Telephone Company of Canada which is before you today, is to extend the statutory powers of the Company into the field of telecommunications. This would give the Company great powers and privileges across Canada and it is, therefore, very necessary I think to examine the existing privileges enjoyed by this Company and, in particular, the privilege they receive in the Province of

Ontario under the Ontario Assessment Act, section 13 of which limits taxation imposed in respect of the gross receipts of the Telephone Company to 5% of the total of such gross receipts in any year.

While the lands and buildings of a telephone company are assessed and taxed in the usual manner, such does not apply to machinery, plant or appliances of the company, wherever situate, or to any structures placed on, over, under or affixed to the public highway—they have this concession—and over any lane or other public communication. In lieu of the normal assessment of such property—this is the exempted property—the company is assessed for an amount equal to a percentage of its gross receipts from all telephone and other equipment belonging to the company located within the municipal limits for the year ending December 31st next preceding the year of assessment. In cities having populations of 100,000 or over the applicable percentage is 75%. That would mean 75 per cent of these gross receipts. The relevant municipal tax rate, a new rate, is applied to the said amount of 75% of the gross receipts in order to determine the taxes payable on the said machinery, plant, appliances or structures, and so on, and the figure resulting would represent the taxes payable except for a provision in section 13—and here is where it comes in—of The Assessment Act which is to the effect that the total taxes payable on this part of the company's assessment shall not exceed 5% of the total gross receipts of the company from its business in the municipality for the year ending December 31st in the year next preceding the assessment.

As a result of this limitation, once the mill rate goes beyond 66½ the aforesaid tax limitation comes into play. The application of this limitation has resulted in losses to the City of Toronto, for instance, in respect of taxes on The Bell Telephone Company's gross receipts, as follows:

In 1962, \$67,000, in round figures; in 1963, \$260,000; in 1964, \$455,000; in 1965, \$726,000; in 1966, \$1,103,700; 1967, \$1,853,600. This is as a result of these two things working to the benefit of the Company and to the distress of the municipality. Thank you.

**The Chairman:** Thank you, Mr. Mayor.

Mayor Cooke wishes to introduce two other people.



**Mr. Cooke:** Yes, Mr. Chairman; if I may, I would like to introduce Mayor Newkirk of Chatham who is a member of our delegation representing The Association of Ontario Mayors and Reeves, and Mrs. Marie Curtis, our Executive Secretary. Mr. Newkirk may have some contribution to make as the meeting proceeds.

**The Chairman:** Before we proceed with the questioning I have one question that I wish to raise since Mr. Kent is here. In the 1948 amendments and also in clause 7 of this proposed Bill, the proposed amendment to section 5, it is stated: "the Company has the power"...to transmit; and in the 1948 amendments it says it "...has and always has had..." this power. Mr. Kent, I am interested in your legal opinion. We know the purpose of the wording, but what is your opinion about the habit of approving legislation which is really retroactive and intended to close up loopholes?

**Mr. Kent:** Governments frequently do that in respect of their own acts. They seldom do it in the case of private, or outside, companies. They say they have, and always have had, authority to do this in case they have inserted something that was not strictly within their powers previously. In this case the power is given in both cases to a private company.

In connection with their powers to go into the radio business in 1948, it was a fairly wide section, but they did say that the Company

has and always has had the power to operate and furnish wireless telephone and radio-telephone systems.

In the new Bill, in revising and extending it to make it clear that it applies to telecommunications, they have used the same term, that they "have and always have had" power to be in that.

**The Chairman:** But there is, in addition, in the proposed section 5: "...and to provide services and facilities..."

**Mr. Kent:** Yes.

**The Chairman:** That is an addition to the 1948 amendment?

**Mr. Kent:** Yes; it is an extension of the 1948 section, and it would be retroactive in the way it is drawn.

**The Chairman:** And you say that in your experience it is rare to have this in private companies.

**Mr. Kent:** Yes.

**Mr. Saltsman:** Mr. Chairman, I would like to ask Mayor Dennison for his opinion on the interesting comment that was made here today by Mr. Carroll about the need for a utilities ombudsman.

**Mr. Dennison:** I understand that in the United States when a private utility operating a service such as the telephone service seek a rate increase they have to go to much more trouble to prove the need of such a rate increase than is required in Canada.

**Mr. Saltsman:** What would you consider would be the best mechanism to protect the public interest in this? Would a board with enlarged powers be the answer, or would you prefer to have an ombudsman?

**Mr. Dennison:** I think a board with enlarged powers might be preferable because it could specialize in this one field. It is a very complicated and difficult field in which to operate, from the standpoint of protecting the public interest; and municipalities are always at a disadvantage when they become the ombudsman for the public because they do not have research continuing year after year. Bell, or any other telephone company, are at a great advantage because it is their business 365 days a year. A municipality must, among its many thousands of problems, make this another one for a short time and hire legal counsel and present its case.

• (11:30 a.m.)

**Mr. Saltsman:** You would be willing to relinquish your position of ombudsman to a new board that would perform this function?

**Mr. Dennison:** I think so.

**The Chairman:** Or to our existing board with stronger powers.

**Mr. Saltsman:** I have a question for Mr. Kent. It relates to the subject of municipal taxation that he raised. He seems to be advocating a higher return from, or a greater tax on, Bell for the municipalities. Because the rate of return on capital is regulated would not an increase in municipal taxes on The Bell Telephone Company result in higher costs to telephone subscribers generally,

and perhaps more so to those in smaller municipalities than those in larger ones?

**Mr. Kent:** It might increase some of their costs, but so far I do not think it has been demonstrated that it would affect rates. Taxes of course always have an effect. They are one of the items that have to be taken into consideration in the matter of income. I feel that they should pay on the same basis as everyone else, and pay to every municipality on the same basis as they do to others; that there should be no distinction.

The smaller municipalities probably do not have as high a tax rate as the larger ones and are not quite so much affected by this section 13; but the whole object of having The Bell taxed on a basis of gross receipts is that one municipality, where their business is concentrated, will not get everything; so that the small municipality will get taxes on the actual gross receipts in that municipality.

**Mr. Saltzman:** But Bell are restricted to a specific return on capital. If their costs increase as a result of paying higher taxes will this not result in permission to Bell to increase their rates to subscribers?

**Mr. Kent:** It might affect it that way; that is quite possible.

**Mr. Saltzman:** Therefore it is really a transference of the load from one source to another?

**Mr. Kent:** But taxes have to be paid, and if they have to be paid through increased rates then that is fair and reasonable, is it not? Practically all utilities are now paying taxes in most provinces. I know that in Ontario all the public utilities and governments are paying their share of taxes. The telephone company is not quite paying its share.

**The Chairman:** Mr. Andras?

**Mr. Andras:** Thank you, Mr. Chairman.

Gentlemen, I have examined this Bill since our last hearings and what bothers me is the total aggregate effect of three or four points.

First of all, Bell is seeking authority to increase its capital substantially. This, by itself, does not really concern me, because we recognize that this kind of business is expanding and perhaps bigness alone is not a fault in this very complex, scientific and quickly-changing field; perhaps we do need bigness to keep up-to-date.

Nevertheless, there is that, combined with clause 8 of the Bill, which gives them power to buy other companies by decision of their own board of directors without Board of Transport control. The third major factor is the broadening of their powers to get into what they describe as the telecommunications field, or, at least, their going to the trouble of getting a very clear indication that they are permitted to be in that field. This combination is quite potent and potentially dangerous.

With that thought in mind, and coming back to your brief on page 4 and paragraph No. 1, on the issuance of shares, perhaps I am missing the point of it. I do not quite understand the concern you have expressed there, where it is stated:

...the decline in earnings per share might result in such decline in market price as would cause Bell to demand a higher rate of return to be obtained only through higher telephone rates.

Could you clarify that a little for me?

**Mr. Kent:** You are asked, as members of the House of Commons, to approve of a substantial issue of shares. In the past, the House of Commons has not been too much concerned with that, because they knew that the Company was growing and that there was the Board of Transport Commissioners to examine it, as representing the House of Commons. Bell is now asking for an increase in capital and that that be done without their having to demonstrate to the Board of Transport Commissioners that they need to do it. Certainly, if they suddenly increased their capital greatly and bought out other companies they should have to demonstrate that doing that is not going to hurt telephone subscribers.

What we are trying to point out here is very similar to what Mr. Carroll was explaining in the memo he read, that if there is a drop in the value of the shares because more are issued, then, naturally, if there is a substantial drop in the value of shares and they do not get the earnings that they are entitled to by way of profit they might have to come and ask for an increase in rates.

**Mr. Andras:** This would be as the result of pressure from the shareholders to improve their return?

**Mr. Kent:** Yes.



**Mr. Andras:** I do not really see how a decline in the market price of the shares would really affect their producing factual justification before the Board of Transport Commissioners. I would assume—and if you cannot answer this perhaps I can find out from our own officials—that Bell's investment, on which the 6.6 return is permitted, represents the par value of the shares?

**Mr. Kent:** That is right.

**Mr. Andras:** And any drop in the market value would not relate...

**Mr. Kent:** The total capital.

**Mr. Andras:** The total capital; and that being the par value of the shares. I think they said they sold the shares for \$25 each. The fluctuation in market value might create a desire on their part to get higher rates, but I do not see how it would justify their argument before the Board of Transport Commissioners.

However, I would like to draw to your attention a point which was raised the other day and which bothered me. I have described the three major powers that they are seeking the increase in capital, the ability to buy other companies and entrance into the field of telecommunications, all of which at the present time are controlled by the regulatory body in several ways; but to me the most effective is what I call the over-all, basket control of 6.6 return on total investment—a 6.6 per cent profit, after corporation tax, on their total investment, no matter what that investment is.

The other day, Mr. Vincent, the President of Bell, was before us and indicated a rather vague wish, I think—and I do not see it in the Bill—that that regulation of control on total investment as a profit return be relaxed so that it would apply only to the amount of money that Bell had invested in telephone plant and equipment. My concern is that with the relaxation of clause 8 and with the existence already of Northern Electric as a controlled subsidiary, they could have several millions of dollars invested in telephone plant and equipment and the 6 per cent return would apply only to that. They could have \$1 billion or \$2 billion invested in subsidiary companies which could be very profitable, the dividends of which would pass back to Bell because of its control position. Therefore those profits in the other companies would be

excluded from this 6.6 per cent control on investment because that investment would now only relate to that in telephone plant. However, they could have a subsidiary company that was in a different field altogether.

• (11:40 a.m.)

I am not suggesting that the management of Bell would do this, but it would permit them to manipulate inter-company charges of dozens of different natures in order to shift the profit centre into these subsidiary companies thereby increasing their profits and their dividends back to Bell, which are outside the regulatory control. In my opinion this opens up a very, very wide hole in the sense of what ultimately could come back to what we are all concerned about, that is, the charges to subscribers. This seems to me to be more of a danger than some of the things you mention here.

It is true there are many other controls exercised by the Transport Commissioners; they look at rates and they look at the inter-company prices of Northern Electric, and that is a very detailed study that goes on all the time, but inevitably, even with very qualified people, things could be missed. As it now stands, even if they make a mistake and allow inter-company prices to exceed what they should be, it is all caught up in the end by this 6.6 per cent return on total capital investment. I see this as a danger if that were relaxed. In my opinion it is better to have it as a percentage control on total investment than, say, on earnings per share, and particularly with the increase in the number of shares I think that is the better way to do it.

Referring to section 8, which allows them to buy other companies and so forth, do you think it would be wise for us to consider making some kind of an amendment which would bring that back to examination by the new Canadian Transport Commission, which will replace the Board of Transport Commissioners? Do you think we should do this?

**Mr. Kent:** Yes, I agree that section should be amended to read, "subject to the approval of the Canadian Transport Commission".

**Mr. Andras:** Thank you.

**Mr. Kent:** I would just like to say that I think we are getting our general point over in your expressions.



**Mr. Andras:** Yes.

**Mr. Kent:** I think, the difficulty, if any, with the Board of Transport Commissioners has been a lack of power, because all the time that Bell were exceeding their orders during the past two years by way of earnings which were much higher than that \$2.43 there was very little they could do. When they got in touch with Bell, Bell answered, "Oh, we do not think that level of earnings is reasonable", and therefore they exceeded it. Instead of \$2.43 they were up to \$2.71, and so forth. They were earning more. The Board's only recourse was to call a hearing.

**Mr. Andras:** Yes.

**Mr. Kent:** If they had this power they could say at the same time, "We are not going to approve any further issue of capital until you get this straightened out". That is another restriction on them.

**Mr. Andras:** In connection with any company they are considering buying under section 8 . .

**Mr. Kent:** Under section 8.

**Mr. Andras:** . . .you would like to see them have to come back to the regulatory body and justify it?

**Mr. Kent:** I would, yes.

**Mr. Andras:** In addition to that are you also saying that they should perhaps get this authority now to expand their capital but they should not be given blanket approval which would continue past this time. In other words, they should come back to Parliament each time they need an increase in capital and justify it. Is that what you are saying?

**Mr. Kent:** That is exactly right, yes.

**The Chairman:** I would like some clarification on that, Mr. Andras. As I see it, Mr. Kent, there are two problems here. First, some people are saying that section 8 should be completely thrown out and, second, that it should be left in, which, of course, would be subject to the approval of the CTC. Which of the two courses would you prefer?

**Mr. Kent:** I do not think we want to limit the powers that Bell Telephone is asking for; we merely want to protect the public in giving those powers. I would prefer to see some limitation put in section 8 so that the public would be protected against what may be done.

**Mr. Andras:** Rather than deleting it completely you would prefer to see some . .

**Mr. Kent:** Yes.

**Mr. Andras:** The intent is stated that they may be interested in acquiring companies in the future.

**Mr. Kent:** Yes.

**Mr. Andras:** But if they expect to do this they must come to Parliament.

**Mr. Kent:** That is right.

**Mr. Andras:** Rather than deleting this completely and restricting them to the Northern Electric-Bell complex as it now exists.

**The Chairman:** In other words, you want all these other companies regulated in the same way as Bell Telephone, is that correct?

**Mr. Kent:** No, that is a different point.

**Mr. Andras:** That is a different point.

**Mr. Kent:** Mr. Andras is merely saying that when they want to invest in some other company—suppose they wanted to buy Canada Wire and Cable or some—

**The Chairman:** It is a possibility!

**Mr. Kent:** They would have to come to the Committee and show that it is within their interests and powers, and so forth, to buy such a firm and that the subscribers would not suffer as a result of their getting into that business.

**The Chairman:** Mr. Bell.

**Mr. Rock:** Mr. Chairman, he said "to the Committee". Does he mean to the Committee or to the new Board of Transport?

**The Chairman:** The new Canadian Transport Commission.

**Mr. Rock:** He said "to the Committee".

**Mr. Deachman:** May I ask a supplementary?

**The Chairman:** I am holding off supplementaries; there has been too much supplementary questioning we are concerned with the clarification that Mr. Rock is asking for, Mr. Kent, that is all.

**Mr. Sherman:** It would be the committee, it would be the Railway . .

**Mr. Rock:** The Railway . .

**Mr. Kent:** The successor of the Board of Transport Commissioners.

**The Chairman:** Which is the Railway Commission of the Canadian Transport Commission.

**Mr. Rock:** Yes.

**The Chairman:** Mr. Bell.

**Mr. Bell (Saint John-Albert):** Following along that last line of questioning, Mr. Kent, do you agree with Industrial Wire and Cable when they say that this regulatory control through the Board of Transport Commissioners should include not only some jurisdiction over the stock and its level but also some control over the company to see that the objects and purposes for which money is raised through their stock issues are being fulfilled?

**Mr. Kent:** I did not see their submission, sir, but I would think that would follow. If it came before a board Bell would have to show that it was justified.

**Mr. Bell (Saint John-Albert):** I think what Mr. Andras has brought out is extremely important. Some of the amendments are very good and it is certainly an excellent brief. I would like to go over it again in the way I have it lined up to make certain I understand it.

Bell Telephone have said, "These 1966 regulations, these new controls over our earnings, have made it redundant and we therefore should not now have to go to the Board of Transport Commissioners as we used to do". Then you people come along and say, "No, no, there is even more reason under these present changes why you should go". You then cite an example and I want to be certain I have it clear. Example No. 1 is that Bell might somehow act on their stock or might invest in other companies in ways that have just been underlined which would result in a lower earning per share for them. However, it would still be within these earnings regulations and these lowered earnings would cause a loss of confidence on the part of the public, the prospective shareholders, even though they are within the earnings regulations. When the market price drops Bell would then come along and say, "We are in a little bit of trouble, our stock is down; we will have to raise our rates". What you are really saying, without questioning the sin-

cerity of Bell, is that they might use this backdoor method in order to get higher rates. Am I right in this supposition?

**Mr. Kent:** I think the "loss of confidence" part is perhaps a little strong but of course, any time the public reacts to a market situation it must be a case of loss of confidence. I am not saying that they might use that approach. It is very difficult to foresee what might cause a drop in their earnings. They are presently a very strong company. They are principally in the telephone business. They might extend that very widely and they might really suffer as a result of that extension. We cannot foresee that, and I think that is the sort of thing that has to be protected. They could not go bankrupt as far as I can see. The people who would lose would be the subscribers.

• (11:50 a.m.)

**Mr. Bell (Saint John-Albert):** In other words, if they went willy-nilly into other large fields of endeavour there might be, at least on a short-term basis, a lower level of earnings, even though within this permissiveness, which would cause the shareholders to lose some interest in the market if the price dropped off accordingly.

**Mr. Kent:** I am sure it would.

**Mr. Bell (Saint John-Albert):** I think that is extremely important. I was wondering about one other thing. Mayor Dennison put on record the loss there is in Toronto under this assessment formula of a million and a half or thereabouts. I was wondering if there is any estimate—I imagine it would be extremely difficult to estimate—of how this might apply to any other municipality in Ontario. I know it would apply differently on a population basis, but do you think it is up in that vicinity for places other than Toronto?

**Mr. Dennison:** I think this would apply to any municipality with a tax rate of over 66 mills, and most municipalities in Ontario have a tax rate of over 66 mills.

**The Chairman:** They are all over 66 mills.

**Mr. Dennison:** And therefore our gross revenue would apply in proportion to the Bell assets in that particular municipality.

**Mr. Bell (Saint John-Albert):** That is all, Mr. Chairman. Thank you.



**The Chairman:** Are they over 66 mills in Chatham?

**Mr. G. Newkirk (Mayor of Chatham, Ontario):** They are.

**The Chairman:** As a former city councillor I know we passed that mark long ago in Hamilton.

**Mr. Rock:** Mr. Kent, you mentioned that the Ontario provincial government has always given the excuse of the tax sharing agreements with the federal government. Do you actually believe that this is the reason they were never able to change the assessment regulations of the province?

**Mr. Kent:** It was for some years, but I inquired at the provincial treasury department just a couple of days ago and they say that it no longer applies. I am sure it did apply for some time. I had spoken to Mr. Spooner when he was Minister of Municipal Affairs there, and he definitely intimated that they could not do anything about that section without taking it up with Ottawa.

**Mr. Rock:** With Ottawa; this surprises me. You have an assessment not exceeding 5 per cent on gross receipts. Does all this amount of the assessment of 5 per cent on gross receipts of The Bell Telephone go directly to the municipality?

**Mr. Kent:** Yes.

**Mr. Rock:** Or does some of it go to the provincial government and to the schools?

**Mr. Kent:** Some of it goes to schools; it is a municipal tax so part of it goes to schools.

**Mr. Rock:** But none of it goes to the province?

**Mr. Kent:** None of it goes to the province.

**Mr. Rock:** I see. You were also concerned about The Bell using public streets for telecommunication services other than telephone. What other suggestion would you have then for use of the municipal streets?

**Mr. Kent:** I think one suggestion is that the municipalities should have more authority to be able to say that the wires should be underground, if they wish. At the present time they do not have that authority. They cannot order the wires to be underground. There are streets in all municipalities now

where they try to put the wires underground. That is one thing.

**Mr. Rock:** I would like to ask Mayor Denison a question in that regard. In Toronto most wires go underground on a lot of your main streets.

**Mr. Dennison:** I do not know whether you could say most. Probably 30 per cent of them are underground.

**Mr. Rock:** When Hydro wires go underground, does the municipality have to pay a portion of this underground cost?

**Mr. Dennison:** They do if they force Hydro to take the initial step in a case of a street widening; then the municipality pays a share. But Hydro have themselves adopted a policy of changing over to underground and now 52 per cent of the hydro supplied to customers in Toronto comes from underground cables.

**Mr. Rock:** You have no problem then with repairs to streets when The Bell Telephone go underground and rip up your streets. They do this all at their own cost.

**Mr. Dennison:** They do.

**Mr. Rock:** You are satisfied with that arrangement.

**Mr. Dennison:** Yes; we try to get from The Bell Telephone and other utilities, such as Consumers Gas, an agreement that they will work with us. When it is our intention to pave a street in a certain year, they will try to make any changes they can foresee in that year too.

**Mr. Rock:** What surprises me is the fact that the municipalities in Ontario do not have the same privileges as municipalities in the Province of Quebec, and as a former municipal councillor of the City of Lachine, I can say to you that the valuation for The Bell Telephone in the City of Lachine for land is \$22,880, for buildings \$101,340, and now for poles, cables and conduits—this does not even include the TV cables, which belong to other people, but still they are assessed—\$444,450, and also for machinery at \$75,000. So, I just want to let you know that I believe that your problem is not right now with the federal authority, but with your own provincial authority; and that you should ask possibly for the same powers of taxation and evaluation as we have in the Province of Que-



bec. In addition to this in the Province of Quebec, it is a sales tax that is imposed on all the calls, rather than assessment in the manner which you have, and when the sales tax in the Province of Quebec went to 8 per cent, so did The Bell have to produce 8 per cent on their subscribers' bills.

**The Chairman:** Are there any other questions?

**Mr. Southam:** Mr. Chairman, just to summarize, I would like to compliment the witnesses on their very concise and forthright brief; they have summarized the essential provisions under this proposed new Bill as listed on page 3 and I think there are nine items. Would it be safe to say, Mr. Chairman—I want to ask Mr. Kent this—that they would be willing to go along with all the permissive clauses in this new Bill, provided that in each case before these powers were granted, The Bell Telephone Company would have to get permission, or be subject to approval by the Board of Transport Commissioners?

**The Chairman:** The Railway Committee of the Canadian Transport Commission.

**Mr. Kent:** Yes; as to issue of stock; as to the question of entering into other forms of telecommunications—that is section 7; and the power to invest in other companies. We want section 4 restored, and we want a provision in sections 7 and 8 that it is subject to the approval of the Canadian Transport Commission.

**Mr. Southam:** I am just putting this question as a matter of summing this whole matter up, because, as I say, you have outlined it quite forthrightly here on pages 3 and 4—

To increase the authorized capital stock...

These are basically the amendments asked for by Bell Telephone

To authorize the Company to issue preferred shares...

To issue bonds on a similar vote instead of by votes of  $\frac{2}{3}$  in value of the subscribed stock.

Power...by entering into all forms of telecommunication...

Power to invest in other companies...

Power to construct, erect and maintain its lines...

Power to make loans to an employee...

Power to provide housing for employees.

and in the last section, section 14, you refer to

...authority not to comply with provisions of the Canada Corporations Act or Provincial statutes...

These all are very pertinent proposed provisions in this proposed new act. Would you list all of these as being subject to the approval of the Board of Transport Commissioners, or just some of them?

•(12:00 noon)

**Mr. Kent:** I think just some of them. We were merely bringing to your attention in those sections the increased powers they were asking in various ways, at the same time reducing the limitations. But the particular ones are sections 2 and 3, which we say you should not change. Section 4 applies to it. The Board should have control over issue of capital stock and also over issue of preference shares; then sections 7 and 8 should be subject to the Board. In respect of section 11, relating to telecommunications along public highways, the only jurisdiction is on the height of wires. I think that jurisdiction should be broadened to ensure, among other things, that the wires are underground. The Board should have wider authority under that section to approve any action without the consent of the municipality. If the municipality consents, of course, it is all right, but if they do not consent the Board should have some jurisdiction.

**The Chairman:** Thank you.

On behalf of the Committee I wish to thank Their Worships Mayor Cooke, Mayor Dennison, Mayor Newkirk, Reeve Prevost and J. Palmer Kent for being with us and presenting a brief today. Thank you very much, gentlemen.

Gentlemen, before we adjourn, we require a motion that the brief presented by the Canadian Federation of Mayors and Municipalities be printed as an appendix to our Minutes of Proceedings and Evidence. Their brief was not read.

**Mr. Bell (Saint John-Albert):** I so move.

**Mr. Chatwood:** I second the motion.

Motion agreed to.

**Mr. Bell (Saint John-Albert):** Mr. Kent read from the brief and also submitted certain amendments, which will appear in the record.

**The Chairman:** I was referring to the brief of the Canadian Federation of Mayors and Municipalities, Mr. Bell.

**Mr. Cantelon:** We need this before we have Bell back again.

**The Chairman:** That is correct.

The Minutes of Proceedings and Evidence containing the brief of Industrial Wire and Cable Company will be distributed today, so you will have it available for examination and questioning.

We will have a Steering Committee meeting in my office, Room 439C, right after Orders of the Day today. Members of this Committee are Mr. Deachman, Mr. Andras, Mr. Cantelon, Mr. Bell and Mr. Saltsman. It will be a very short meeting.

Our next meeting will be at 9.30 on Thursday, November 16, when questioning of the Industrial Wire and Cable Company will begin.

At 9.30 on Tuesday, November 21, we will have The Northern Electric Company, and at 9.30 on Thursday December 7, the Combines Branch of the Department of Corporate and Consumer Affairs.

A short private member's Bill, No. C-113, an Act to incorporate Commercial Solids Pipe Line Company, was referred to us on Tuesday, October 31, by the House. I have been asked by the sponsor if this Committee would set aside a morning to hear it. I must say I was a little reluctant at the time to agree without discussing it with the Committee.

The Clerk advises me that we could probably hear it on the morning of Tuesday, November 14. It probably would take the whole morning. It is the standard incorporation of a solids pipe line which would come under the Canadian Transport Commission.

**Mr. Cantelon:** What is the name of the company?

**The Chairman:** Commercial Solids Pipe Line Company.

**Mr. Cantelon:** Is that Shell?

**The Chairman:** It is a Shell company, yes. Mr. Basford sponsored this Bill. Do members

of the Committee feel that we should deal with Bill C-113 in the course of these proceedings or that we should wait until we have completed the Bell Telephone Bill?

**Mr. Cantelon:** It probably will not take very long.

**Mr. Deachman:** Is this the first solids pipe line bill we have had before us or have we had other bills dealing with solids?

**The Chairman:** This is the first solids pipe line bill we have had.

**Mr. Deachman:** Would we not need more time than just a morning to look at a new topic. Perhaps we should set a date that will give us more time to deal with it?

**The Chairman:** I am in the hands of the Committee.

**Mr. Chatwood:** I think we should hear it, Mr. Chairman.

**The Chairman:** Are there any other views?

**Mr. Cantelon:** We had a brief on this.

**The Chairman:** We had a brief on commercial solids pipe lines when we were dealing with the National Transportation Act.

**Mr. Cantelon:** And we had Shell with us at that time.

**The Chairman:** Shell were with us at that time. If I recall correctly, we all were in agreement that this should be done and they went ahead to incorporate. Is it the wish of the Committee that we should set aside Tuesday, November 14 at 9.30 to hear this Bill?

**Mr. Andras:** With the objective of completing it?

**The Chairman:** Yes. If there is no chance of completing it I would be very reluctant to commence because we are in the midst of another bill. It is an unusual procedure.

**Mr. Pascoe:** Mr. Chairman, I will not be able to be there that day and I imagine there will be quite a few others who will not be able to make it.

**An hon. Member:** I cannot be here that day.

**The Chairman:** An alternative date would be Thursday, November 23. We will be sitting on the 21st to hear Northern Electric. What about the morning of November 23?

**Mr. Pascoe:** That date is agreeable to me.

**The Chairman:** We do have to advise the witnesses.

**Mr. Deachman:** I cannot be here on the 14th.

**An hon. Member:** What about the 21st?

**The Chairman:** We cannot hear this bill on the 21st because we have scheduled Northern Electric.

**An hon. Member:** What about the 22nd?

**The Chairman:** We do not know how long we will take with Northern Electric. We should set aside at least two days for them.

**Mr. Pascoe:** Would the 23rd be agreeable?

**The Chairman:** Does the 23rd meet with your approval?

**Some hon. Members:** Agreed.

**The Chairman:** As I said, there will be a very short meeting of the Steering Committee in Room 439C.

The Committee will adjourn.



## APPENDIX A-8

Brief Submitted By  
CANADIAN FEDERATION OF  
MAYORS AND MUNICIPALITIES

With Proposed Amendment

The Federation respectfully submits:

BILL C 104

Bill C 104 proposes amendments to various acts governing the Bell Telephone Company of Canada and, in particular, by paragraphs 7 and 11 thereof proposes amendments to section 5 of chapter 81 of the statutes of 1948 and section 3 of chapter 67 of the statutes of 1880, both as shown in Appendix attached to this Brief.

The new sections grant powers to the Company relating to line or lines of *telecommunication*, subject to controls by municipalities and the Board of Transport Commissioners for Canada.

## SECTION 378 OF THE RAILWAY ACT

Section 378 (except section 1 which does not apply to the Company), of the Railway Act, which Section is also shown in Appendix attached to this Brief, provides for the powers of the Company relating to "*telegraph or telephone lines*," subject to controls by municipalities and the Board of Transport Commissioners for Canada.

It is obvious that lines of *telecommunication*, particularly as defined in said proposed section 5 of chapter 81 of statutes of 1948 and section 3 of chapter 67 of the statutes of 1880, were meant to and do cover a more extensive field of powers than *telegraph or telephone lines* referred to in Section 378 of the Railway Act.

## FEDERATION'S PROPOSED AMENDMENT

It is therefore desirable that the powers and controls set forth in Section 378 (except subsection 1) of the Railway Act, relating to "*telegraph or telephone lines*" be extended to cover "*line or lines of telecommunication*."

Accordingly, the Canadian Federation of Mayors and Municipalities proposes that Section 11 of Bill C-104 be amended by replacing the word "*incurred*," at the end thereof by the following:

"*incurred*; and Section 378 (except subsection 1) of the Railway Act shall apply

to the Company insofar as line or lines of telecommunication are concerned."

## APPROVAL BY COMPANY

The Bell Telephone Company of Canada has indicated, through Mr. Jean de Grandpré, Q.C., Vice-President Law, its approval of the amendment proposed by the Federation.

March 29, 1967

Lowell C. Carroll, Q.C.  
Counsel

7. Section 5 of chapter 81 of the statutes of 1948 is hereby repealed and the following substituted therefor:

"5. It is hereby declared that <sup>Power to operate communication system.</sup> subject to the provisions of the *Radio Act*, and of any other statutes of Canada relating to radio and radio broadcasting and to the regulations made thereunder, the Company has the power to transmit, emit or receive and to provide services and facilities for the transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electromagnetic system and in connection therewith to build, establish, maintain and operate, in Canada or elsewhere, alone or in conjunction with others, either on its own behalf or as agent for others all services and facilities which the Company may deem expedient

R.S., c. 233;  
1952-53, c. 48;  
1953-54, c. 31;  
1955, c. 57.

or useful for such purposes, using and adapting any improvement or invention for communicating with others, and any other means of communicating that may, in the opinion of the Board of Directors, be deemed to be in the interest of the Company."

11. Section 3 of chapter 67 of the statutes of 1880 as amended by section 2 of chapter 95 of the statutes of 1882 is hereby repealed and the following substituted therefor:

"3. The said Company may construct, erect and maintain its line or lines of telecommunication along the sides of and across or under any public highways, streets, bridges, water courses or other such places, or across or under any navigable waters, either wholly in Canada or dividing Canada from any other country, provided the said Company shall not interfere with the public right of travelling on or using such highways, streets, bridges, water courses or navigable waters; and provided that in cities, towns and incorporated villages the Company shall not erect any pole higher than 40 feet above the surface of the street, nor affix and maintain any telecommunication wire below any minimum height that may be approved by the Board of Transport Commissioners for Canada or that may be established by any regulation or general order of said Board, nor carry more than one line of poles along any street without the consent of the municipal council having jurisdiction over the streets of the said city, town or village, and that in any city, town or incorporated village, the poles shall be as nearly as possible straight and perpendicular, and shall, in cities, be painted if

so required by any by-law of the council; and provided further that where lines of telegraph are already constructed, no poles shall be erected by the Company in any city, town or incorporated village along the same side of the street where such poles are already erected unless with the consent of the council having jurisdiction over the streets of such city, town or incorporated village; provided also that in so doing the said Company shall not cut down or mutilate any tree, and provided that in cities, towns and incorporated villages, the location of the line or lines and the opening up of the street for the erection of poles or for carrying the wires under ground shall be done under the direction and supervision of the engineer or such other officer as the council may appoint, and in such manner as the council may direct, and that the surface of the street shall, in all cases, be restored to its former condition by and at the expense of the Company: Provided also, that no Act of Parliament requiring the Company (in case efficient means are devised for carrying telecommunication wires under ground) to adopt such means, and abrogating the right given by this section, to continue carrying lines on poles through cities, town or incorporated villages, shall be deemed an infringement of the privileges granted by this Act; and provided further that whenever in case of fire it becomes necessary for its extinction or the preservation of property that the telecommunication wires should be cut, the cutting under such circumstances of any of the wires of the Company under the direction of the chief engineer or other officer in

Proviso as to trees.

Proviso as to cutting wires in case of fire.

Construction and maintenance of line.

Proviso: height of poles, & c.

charge of the fire brigade, shall not entitle the Company to demand or claim compensation for any damages that might be so incurred.

Consent of  
Municipality.

(2) Notwithstanding anything in any Act of the Parliament of Canada or of the legislature of any province, or any power or authority heretofore or hereafter conferred thereby or derived therefrom, no telegraph or telephone line, within the legislative authority of the Parliament of Canada shall, except as hereinafter in this section provided, be constructed by any company upon, along, across or under any highway, square or other public place, without the legal consent of the municipality having jurisdiction over such highway, square or public place.

Leave of  
Board.

(3) If any company cannot, in respect of any such line, obtain such consent from such municipality, or cannot obtain such consent otherwise than subject to terms and conditions not acceptable to the company, such company may apply to the Board for leave to exercise such powers, and upon such application shall submit to the Board a plan of such highway, square or other public place showing the proposed location of such lines, wires and poles.

Powers of  
Board.

(4) The Board may refuse or may grant such application in whole or in part, and may change or fix the route of such lines, wires or poles, and may by order impose any terms, conditions or limitations in respect of the application that it deems expedient, having due regard to all proper interests.

Exercise of  
powers.

(5) Upon such order being made, and subject to any terms imposed by the Board, such com-

pany may exercise such powers in accordance with such order, and shall in the performance and execution thereof, or in the repairing, renewing or maintaining of such lines, wires or poles, conform to and be subject to the provisions of subsection (1), except in so far as the said provisions are expressly varied by order of the Board.

(6) Notwithstanding any power or authority heretofore or hereafter conferred upon any company by or under any Act of the Parliament of Canada, or of the legislature of any province, or any other authority, the Board, upon the application of the municipality, and upon such terms and conditions as the Board may prescribe, may order any telegraph or telephone line, within the legislative authority of the Parliament of Canada, in any municipality or any portion thereof, to be placed underground, and may order any extension or change in the location of any such line or any portion thereof, and the construction of any new line, and may abrogate the right of any such company to construct or maintain, or to operate or continue, any such line or any pole of other works belonging thereto, except as directed by the Board; and where such a line or lines within the legislative authority of the Parliament of Canada and such a line or lines within the legislative authority of a province, run through or into the same municipality, and the municipality is desirous of having any of the lines placed underground, and there exists in such province a provincial commission, public utilities or other board or body having power to order such a line within the legislative authority of such province to be placed underground, the Board and the provincial commission, or

Board may  
order wires  
placed  
under-  
ground.



Joint session.

Company may apply for additional lands.

Municipality or landowner may apply for drainage or laying water-pipes rights.

Board may permit construction of drainage and laying of pipes.

public utilities board or body, may by joint session or conference, or by joint board, order any of the lines to be placed underground, and abrogate any right to carry the same on poles, and the provisions of subsection (3) of section 256, with the necessary adaptation, apply to every such case.

(7) Where the Board makes an order under subsection (6) and a company requires additional lands for the purpose of enabling it to comply with the order, the company may apply to the Board for authority to take the additional lands necessary for such purpose without the consent of the owner, and subsections (2) to (7) of section 203 apply, *mutatis mutandis*, to the taking of the additional lands.

(8) Where a municipality or landowner desires to obtain means of drainage or the right to lay water-pipes or other pipes, temporarily or permanently, through, along, upon, across or under any telegraph or telephone line within the legislative authority of the Parliament of Canada or any lands forming part of or used in connection with such telegraph or telephone line, the Board may, upon the application of the

municipality or landowner, permit the construction of the drainage or the laying of the pipes upon such terms and conditions as the Board may consider proper.

(9) Except as provided in sub-sections (6) and (8) nothing in this section affects the right of any telegraph or telephone company to operate, maintain, renew or reconstruct underground or overhead systems or lines, heretofore constructed.

(10) Nothing in this section authorizes, or gives power to authorize, any company to construct or operate any line or works along any highway or public place without the consent of the municipality having jurisdiction thereover in any case where

(a) the Special Act applying to such company requires such consent, or

(b) the provisions of section 373, 374 or 375 apply to such company and require such consent;

and where such consent is so required the provisions respecting the same shall be complied with. R.S., c. 170, s. 373; 1948, c. 27, s. 2.

Telegraph and telephone companies, rights preserved.

Provisions in special Acts, etc.







OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House.*

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament  
1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

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THURSDAY, NOVEMBER 16, 1967

DEC - 7 1967

UNIVERSITY OF TORONTO

Respecting Bill C-104,  
An Act respecting The Bell Telephone Company of Canada.

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WITNESSES:

From the *Industrial Wire and Cable Co.*: Mr. G. D. Zimmerman, President;  
Mr. J. G. Torrance, Counsel; Mr. R. A. Smith, QC., Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Émard,

Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nugent,  
Mr. O'Keefe,  
(Quorum 13)

Mr. Orlikow,  
Mr. Pascoe,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—24.

R. V. Virr,  
*Clerk of the Committee.*

*Corrigendum*

Issue No. 4, page 128, line 35 first column should read:

“ships it is a fixed assessment of \$135.00 a mile”

page 128, line 2, second column should read:

“about \$2323.20 per mile.”



ORDER OF REFERENCE

WEDNESDAY, November 15, 1967.

*Ordered*,—That the names of Messrs. O'Keefe and Nugent be substituted for those of Messrs. Chatwood and Nowlan on the Standing Committee on Transport and Communications.

*Attest*

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*



## MINUTES OF PROCEEDINGS

THURSDAY, November 16, 1967.

(9)

The Standing Committee on Transport and Communications met this day at 9.40 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout, and Messrs. Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Émard, Deachman, Howe (*Wellington-Huron*), Jamieson, Lessard, Macaluso, McWilliam, Nugent, Pascoe, Rock, Saltsman, Sherman, Southam, Stafford (19).

*In attendance:* Mr. G. D. Zimmerman, President, Industrial Wire and Cable Co.; Mr. J. G. Torrance, Counsel; Mr. R. A. Smith, Q.C., Counsel.

The Members resumed questioning the officials of Industrial Wire and Cable Co. respecting their brief regarding Bill C-104, An Act respecting The Bell Telephone Company of Canada.

On motion of Mr. Pascoe, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*,—That the Consent Decree tabled by Industrial Wire and Cable Co. on October 31 be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-9*).

The examination of the witnesses continuing, at 1.00 o'clock p.m., there being no further questions, the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, November 16, 1967.

• (9:43 a.m.)

**The Chairman:** We will now commence with the questioning on the brief of Industrial Wire & Cable Co. Limited. Again I would like to introduce our witnesses: Mr. G. D. Zimmerman, President, J. G. Torrance, Counsel, and R. A. Smith, Q.C., Counsel.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, I would like to explore one aspect of this matter of mergers and combines which is set out on page 75 of Committee Report No. 3. Bell Telephone officials spoke of the desirability of mergers and their ability to compete in the world market, and they mentioned recommendations that different bodies had made in this connection. I will not go into this in depth at this time because I think both Mr. Zimmerman and Mr. Torrance are familiar with this. But either during that reference or later they said because they were able to combine in different ways they were able to get international business for Northern, and this was one of their main arguments.

I realize you have made some reference to this but would there be any chance of segregating domestic from international business; and would you just comment generally on whether there is any hope in the future of you people being able to get into international markets.

**Mr. G. D. Zimmerman (President, Industrial Wire & Cable Co. Limited):** I would be pleased to. Answering the last part of your question first, we are in the international market; we are exporting to selected parts of the world. It is the policy of our company to concentrate our activities on the Middle East and developing countries in Africa have seemed appropriate to our activities. Therefore we are there and expect to continue being there in an ever-increasing way.

Of course I am observing Northern and Bell from the outside—I am not within their counsel—but I suspect their saying that their international marketing ability is being

enhanced by the possibility of acquisition is something of a red herring. They have stated, and they are right, that they are the largest manufacturers of their type of equipment in Canada, and in some lines the only manufacturer of it now. In selected lines of telephone equipment they are a leading world wide competitor, and very successful. It is my opinion that to the extent they broaden this special area and diversify they will become not only less effective but make other free enterprisers in Canada less effective by weakening the base for the private sector on the home market. Our effectiveness in foreign endeavours bears a direct relationship to the soundness of own home market. You cannot have a weak home base and be a worldwide competitor. I have heard philosophy expounded on this subject but in my opinion it really comes down to asking Parliament to approve them as a chosen instrument of Canada's export trade, and I think this runs directly counter to our economic system.

**Mr. Bell (Saint John-Albert):** Do you think there would be any way by which we could preserve competition in the domestic market and allow some kind of combine in any aspect of international trade they might have? Do you think this would be practical?

**Mr. Zimmerman:** Yes, I do. We and the Canadian Electrical Manufacturers Association have currently submitted at least one brief on the combines aspect of foreign trade and, without going into detail, the nut of it is that Canada, by reason of its home markets and the scale of its plants, needs to have consortiums of companies acting jointly to undertake meaningful projects elsewhere in the world.

I believe that Northern, like all the rest of us, would have a role in that if it was approved under combines legislation, and I would welcome their having such a role. But to revert, I think their role is already well defined: because they are a world leader in it they could assist others in our community by

adding their strength to the private sector strength and representing Canada as part of a team in these competitive situations. I do not believe for one minute that they need to go out and acquire other interests and become the only Canadian export agent.

**Mr. Bell (Saint John-Albert):** I have one related question. Do you think that Bell have been selective about the other types of activities that they have gone into. To put it another way, when they went into activities that were in direct competition with your company do you think this was because of the narrow knowledge that there was a chance here or that there would be less harm done to bigger companies? What I am trying to get at is this. You alluded in your brief to the fact that there are some larger companies, some subsidiaries, that have been hurt a bit by this existing state monopoly but that they have not objected for different reasons, and also it is implied that at the moment they may not be seriously effective. Was it a natural thing for Bell to go into the activity that brought you into direct competition with them or do you think that they felt there would be less outcry from hurting a company such as yourself because if they went into some of the larger fields it would have bothered Westinghouse and other companies that you mentioned and might have brought the whole matter out in the open. Do you understand what I am getting at?

• (9:50 a.m.)

**Mr. Zimmerman:** Yes. To answer the part of your question about the outgrowth of their activities into areas that are hurtful to the private sector, I think this has been a natural development of any private enterprise situation. It has been encouraged and fostered by the special nature of Bell's powers and its privileges as a common carrier and a *de facto* monopoly. Interpreting the registration of complaints from other large sectors of the economy and the vocalization thereof, I think it comes down to a compromised decision, which faces every businessman every day, on the degree of hurt and whether he takes one course or another.

There has been a total lack of confidence in the regulatory powers of the Transport Commissioners as we have known them in this sector. We have been accused of riding white horses, being idealistic, and just squaring ourselves with our shareholders by

engaging in a confrontation with a company of this size. I think we state in our brief, and I state it frankly here, I have had no objection from any member of the electrical or any other sector of the private industry to what we are doing as a matter of principle. Never once have I received a communication of that nature; it has been 100 percent the other way. I think I understand some of the reasons large companies do not come out in the open. Maybe the recent discussion of on-line banking that broke in the news yesterday might be a case in point. Here we have one competitor held up as being badly hurt by what Bell's activities would be in this field; others are reported as being greatly benefited. Yet if you took other sectors of the business of the ones that are being benefited, say their wire and cable sector, they are obviously being hurt. Then again we must recognize that we do have a monopoly situation. You have to go to Bell for certain things and only one facet of their service is compulsory, the telephone—they have to give it to you. But increasingly today, they can withhold for a variety of reasons the other things that, they have to give you and are desirable. This is a very compelling discipline on certain very large companies. I think also there is a question of corporate image and a question of company policy involved when dealing with problems of this nature within individual companies. Again, it must come down to people and people have different ways of solving their problems. I am satisfied that over the years there have been many, many discussions between big companies and Bell as to where their interests are conflicting but I think the weakness in the system has been the lack of meaningful regulation and interpretation of Bell's role in our economy.

**Mr. Bell (Saint John-Albert):** In other words, what you are suggesting is that the influence or the big stick that Bell might have over these other companies is more a service connection rather than actual other big business contracts.

**Mr. Zimmerman:** Not entirely. I think you sort of have to pick your example. I think they are the largest company in Canada and their purchases in terms of raw materials and services account for a tremendous segment of the available business; and again, whether it comes from Bell or Northern, is quite beside the point when it is used as a



counter to becoming an unfavourable critic of the Bell. You then have to sit down and decide whether or not you want Bell's business. Certainly that was my decision. They were our second biggest customer. We felt the impact immediately, and has continued to this day. That was not unexpected. In any given situation, I think these are the disciplines that work in the marketplace and the private sector does not have a third person appeal because there is no place to go. It is a private matter between two enterprises. Only when we are talking telephone is there some place to go and that has been quite ineffective.

**Mr. Bell (Saint John-Albert):** I have one other question, Mr. Chairman. From what you say on page 17 of your brief I presume that Bell standards would come in to a certain extent here. Would you care to expand on that.

**Mr. Zimmerman:** A case in point, one in which we are not involved and that we might appear a little more dispassionate on, is again in the CATV area. Bell's use of its standards are quite effective disciplines as to how, where, and by whom equipment is going to be installed that in any way connects or is a party to their system. Now a CATV private operator wanting to get into business has to be practical and sit down and negotiate with the Bell because they are the one and only economical route into the places the CATV operator is going to go—your home and mine. The contract—I have here one of Bell's contracts—has repeated references to the use of their standards and engineering judgment in terms of what is permissible. We have two or three on page four of this contract. It reads as follows:

...the Customer from time to time during the continuance of this contract, for the use by the Customer, in conjunction with its own facilities and equipment, for the purpose of the relay and distribution by the Customer to its subscribers of regularly-broadcast television programmes and matter disseminated by means of Hertzian waves intended to be received by the public for Pay TV service or not and which are picked up by the Customer's master antenna system...

Now just to synopsise the point rather than read the whole contract, in this contract

a customer is restrained as to precisely the content and the type of usage he will put on a cable which he is leasing—the entire cable at this point—and this is one of the complaints.

On an engineering basis, we come to one close to my heart, the type of cable, and the specification reads:

The type of cable which the company will furnish in pursuance of this contract will be mutually agreed upon by the customer and the company.

Now the company of course is Bell. They will find that they have an immediate mutual agreement, and it will be for Northern cable. However, I suggest to you that they would never find mutual agreement if it were Canada Wire and Cable or Industrial Wire, assuming we were manufacturing it.

I do not wish to prolong this issue but I would like to draw your attention to foreign equipment on page seven and the rights of the customer: The customer shall not connect physically or electrically to the cable distribution system covered by this contract any cable or conductor, except those for service drops, not provided by the company.

Now I could go on because I have about 15 such excerpts, but this is a well-recognized discipline in the private sector. You have a system and you are sitting with the right to say what you will put on it and what you will not put on it, and Bell's position as a common carrier permits them to be the sole judge as to what is good in that system. Now in other jurisdictions that is not the case; there are other authorities. There is an appeal for engineering logic and engineering evaluation and their decision is not the be all and end all in this area, so that the misuse of these monopolistic powers can be very effective by simply having the right to say what is an acceptable custom from an engineering or standards point of view. That was my point.

• (10:00 a.m.)

**Mr. Bell (Saint John-Albert):** There really might be two aspects to this. There is the case where a company such as yours does not even get a chance in some instances to tender. The business is directed right through to Northern Electric and probably nobody even knows about it. Then there is the other case

where, as you say, by using these Bell standards they can set the thing up a certain way for a particular company.

**Mr. Zimmerman:** That is right.

**Mr. Bell (Saint John-Albert):** In the latter case, where there are companies doing business with Bell, is there any competition amongst companies even with these standards?

**Mr. Zimmerman:** Yes. In every instance of a general electrical communication commodity there are a variety of choices available, many of which are made in Canada. When you get into the very sophisticated systems that employ Bell Labs type of philosophy—I think we had reference during Bell's hearing to crossbar switchboards, and that sort of thing—this, of course, is their more or less patented or developed system. That is unique. Certainly in the case of wire and cable, in terms of hand sets and normal switchboards, I am not aware of any product that is not available in Canada from at least one and often from two or three other sources.

**Mr. Bell (Saint John-Albert):** That is fine, thank you. If I may, I would like to ask another question later on financing.

**Mr. Stafford:** On page 4 of the brief which you submitted and also in the right-hand column of page 118 of the printed evidence you say that more than 99 per cent of your company's approximately 1,200 shareholders are Canadian residents. What is the percentage which is not owned by Canadian residents?

**Mr. Zimmerman:** A very small percentage. Do we have a recent reading on that?

**Mr. J. G. Torrance (Counsel, Industrial Wire & Cable Co. Limited):** Yes. There are 82 non-resident shareholders and out of approximately 1,700,000 shares, they hold 21,317 shares.

**Mr. Stafford:** Without saying who it is, what percentage of shares would the largest shareholder in the company own?

**Mr. Zimmerman:** There is no secret about that. UCH Holdings has 650,000 shares out of 1,700,000. It is something less than 50 per cent.

**Mr. Stafford:** What Holdings did you say that was?

**Mr. Zimmerman:** UCH Holdings.

**Mr. Stafford:** Is that a Canadian company as well?

**Mr. Zimmerman:** Yes, it is.

**Mr. Stafford:** Do Canadians own the shares of UCH Holdings?

**Mr. Zimmerman:** Yes, they do.

**Mr. Stafford:** When you say that 99 per cent of the 1,200 shareholders are Canadian residents, approximately the same percentage in UCH Holdings will be Canadians as well?

**Mr. Zimmerman:** Yes. I realize that the wording could be interpreted as a cute way of masking the fact that control was outside of Canada. That was not the intent. Voting control is 99.5 or 99.6 per cent Canadian-owned.

**Mr. Stafford:** Yes, from the wording, it does seem very much as if you were trying to put it in a way that made it appear Canadian but under the surface it might not be Canadian?

**Mr. Zimmerman:** That is right. We appreciate that.

**Mr. Stafford:** At the risk of repetition, UCH Holdings is perhaps the same percentage, 99 point something...

**Mr. Zimmerman:** Oh, absolutely.

**Mr. Stafford:** These shares are owned by Canadians.

**Mr. Zimmerman:** That is right.

**Mr. Stafford:** I think you say on page 118 that you are in the electrical wire and cable business. Is that right?

**Mr. Zimmerman:** Yes.

**Mr. Stafford:** What proportion of the Canadian electrical wire and cable sales does your Company have?

**Mr. Zimmerman:** This is an approximation but I would say about 5 per cent. Our sales in wire and cable products run something over \$15 million and out of the total of this product line I think we have possibly \$300 million in Canadian sales.



**Mr. Stafford:** Do you know what company in Canada has the largest proportion of Canadian electrical wire and cable sales?

**Mr. Zimmerman:** Not precisely, but it would be close. I would put my money on Northern Electric. It is one-two with Canada Wire.

**Mr. Stafford:** Do you mean to say that in your opinion Northern Electric is as big as Canada Wire in this particular field?

**Mr. Zimmerman:** Yes.

**Mr. Stafford:** What percentage of the market do you consider Northern Electric has?

**Mr. Zimmerman:** I would say they have 25 to 30 per cent.

**Mr. Stafford:** You consider that your company has about 5 per cent of this business, and there is also Canada Wire and Northern Electric. For our assistance would you care to name any other major producers of electrical wire and cable?

**Mr. Zimmerman:** Yes. There is another very large one—they are not in the same league with the two giants—Phillips Cables Limited of Brockville.

**Mr. Stafford:** That has nothing to do with Phillips of Holland?

**Mr. Zimmerman:** No.

**Mr. Stafford:** This is Phillips Cable.

**Mr. Zimmerman:** That is right.

**Mr. Stafford:** I am not trying to pin you down, I know these can only be approximations, but what percentage would they have?

**Mr. Zimmerman:** I think they have slightly under 20 per cent.

**Mr. Stafford:** So Northern Electric does not dominate this particular market.

**Mr. Zimmerman:** No, they do not have the sole role by any means.

**Mr. Stafford:** On page 12 of your brief there is a section underlined which reads:

In short, communication technology is now imposing unity upon all communication techniques. There is no longer any distinction among the various forms of communications. All of them can now

pass through the same relays in the form of identical electronic pulses.

How is it going to help the ordinary telephone subscriber if Bell does not use its communication network for all profitable types of telecommunications?

**Mr. Zimmerman:** I think it will help them in two ways. Let us assume that by regulation Bell is the common carrier and is confined to the telephone inputs and outputs. Firstly, it will make available to all comers the use of these electronic highways or common carrier networks as a matter of right and not as a matter of Bell's choice. Almost overnight the use of their installed networks would become a matter of public interest. They have to lease; they cannot choose their customers. I am convinced that Bell is now and has for years been choosing their customers and the use of this network with a view to where it was going and this is why it is now asking to acquire other companies. Therefore, it has chosen its non-telephone service customers.

The other immediate effect would be the restraint on Bell's expenses in developing other types of services such as private communications, outlets and CATV systems which are a charge against their operations, they get wound up in their rate base, and it is on this rate base that the approved earnings come out and on which the telephone subscribers rates are set. They are now developing various intercommunication systems, the CATV systems, for example, which are quite unrelated to their telephone role. These types of expenditures would be reduced. We again make the assumption that Bell's role has been defined as a common carrier and the telephone is their field. I then suggest that regulation would also read into the cost structures between Northern and Bell and it would look at the efficiencies of manufacturing common carrier equipment and not a variety of other products which may or may not be profitable—and my suspicion is that they are not—and the efficiencies flowing from this should in my opinion pass to the telephone subscriber.

• (10:10 a.m.)

In my view, the greatest benefit would be the compulsion to now use the installed plant for all comers for these services, just as the railways or hydro-electric power commissions must accept all customers without choosing those whom they wish to favour and with an



eye down the road to acquiring other interests. I think this is where the conflict comes in. They are in a position where they can now use their networks—outside of telephone usage—for whatever they want and without taking on customers as a matter of obligation.

**Mr. Smith:** I would like to add that one of the compelling arguments against using an analogy such as hydro-electric is that Bell is the only company with the right to string lines along streets or under streets and therefore, as they have that sole right, it should be made available to everybody at regulated rates.

**Mr. Stafford:** Further to what you said, is it not correct that the more money Bell can make on all non-telephone communication uses the cheaper the telephone services will be to the telephone subscribers, and as there are about, three million telephone subscribers to Bell Telephone and 1,299 shareholders of Industrial Wire it would appear that the first interest should be to those subscribers, would it not?

**Mr. Zimmerman:** I do not think so. I think that Bell's role, as a government-created monopoly, is satisfying a public need. I think that monopolies arise out of general public need and are for the public interest, not the Bell shareholder or the Bell subscriber, because we are not talking about regions in Canada and you are selecting their area and saying, "God bless you people," and to strain it a bit, the rest of us are second-class citizens. However, I think the monopoly arises out of a public need, and that need should be clearly defined as the boundary outside of which this monopoly should not run.

That is a philosophical argument but I think there is a very compelling economic argument as well. That is, that Bell or any company vertically integrated can be an efficient manufacturer on its main product line but if its management has acquisition interests and it is going to broaden they become no better and probably not nearly as good as the hard-fisted entrepreneur who wants to come in around the periphery of its activities. I suggest that is exactly what we have in the Northern-Bell context.

**Mr. Stafford:** You missed my main point, which was that the more money Bell can

make on its non-telephone communications uses the cheaper the telephone services will be.

**Mr. Zimmerman:** I agree, and I just italicized the word "make". Accountants have great ways of showing whether money is made or lost. With the type of regulation—and I also put that word in italics—that we have had in Canada, who knows where Bell's money is made and where it is lost?

**Mr. Stafford:** You are missing my point. I am trying to get at the fact that we do not know how much of this electrical cable Bell uses. Is it correct that Bell uses more than they manufacture? Do they sell it in competition with your company? If they do sell it in competition with your company, then, of course, the cheaper the price the better the quality and you would have to leave that up to the people who wanted it.

**Mr. Zimmerman:** Yes.

**Mr. Stafford:** Let us go back to my long-winded question. It is correct that Bell uses all they manufacture? Do they sell it outside?

**Mr. Zimmerman:** They sell it outside.

**Mr. Stafford:** So in a sense your argument would not quite hold water because of the fact that the price as well as the quality should be looked at by those who want to purchase it?

**Mr. Zimmerman:** Right. Let me take my product and I will try to hit your question exactly where you want it answered.

When they sell their surplus to the public, which is the same as our product, in an amount over and above their own needs, they are making something which they do not use in their enterprise at all.

**Mr. Stafford:** They do not use it at all?

**Mr. Zimmerman:** No. I can name product after product. Let us take a well-recognized one, building wires. Bell Telephone in its system requires communication cables. It does not use building wires unless it wants to do its own maintenance work.

**Mr. Stafford:** I do not know this, you see.

**Mr. Zimmerman:** Yes. This is where I think the broad generalities break down

when you look at specific products. Over the years Northern has been a very large supplier of aluminum power cables, things on which Magaguadavic would bring power from Churchill Falls. They are entering into products for which they have no need in their own facilities. They are simply reaching for additional business and getting out into areas that are not related to their telephone requirements. I am absolutely convinced that in this area they are not the most efficient manufacturer. We could compete with them on our product lines and I am absolutely satisfied that with the proper distribution and allocation of costs we are a lower cost manufacturer than they. We think we know our business very well. We do not have their tremendous size. I think size has become equated with efficiency and certainly in any business this is a very dangerous assumption to make.

**Mr. Stafford:** I noticed you mentioned the word "monopoly" on three different occasions when you were here on October 31. On the top left of page 124 you more or less say that Bell has a monopoly. In the left-hand column of page 137 about half-way down you say Bell has competitors and also on page 124 you say in the right-hand column about half-way down that there are many companies in the telecommunications field. Is there not sort of a slight contradiction there?

**Mr. Zimmerman:** Probably the contradiction occurs when qualifying the area in which they are a monopoly. I think we all recognize them and they refer to themselves from time to time as a monopoly in the telephone business within their area. In Toronto we have a monopoly on telephones and it is only within that context that I should use the word "monopoly".

**Mr. Stafford:** Going back to my original question on this particular group, if Bell gives up profitable business to its competitors it will not keep the cost to subscribers down, will it, if it is really profitable?

**Mr. Zimmerman:** If it is really profitable, then obviously it will result in a contribution to the telephone subscribers. I agree with you.

**Mr. Stafford:** What did you mean when you said on page 137 that Bell's competitors are Canadian in every sense of the word?

**Mr. Zimmerman:** I think we...

**Mr. Stafford:** This appears in about the centre of the left column.

**Mr. Zimmerman:** You are giving the page number of the transcript. What was that again?

**Mr. Stafford:** In the left column of page 137 about half way down you say, "Bell's competitors are Canadian in every sense of the word"... I wonder if you include CN and CP Telecommunications in this?

**Mr. Zimmerman:** I think this was a riposte, if you like, to the sort of flag-waving public relations which Bell wraps around its public utterances which may leave the impression that they and they alone are Canadian. I certainly view most of their competitors in the telecommunications field as Canadian as Bell in their manufactured product, resident management, and so on.

**Mr. Stafford:** Do you consider those companies that sell communication devices for computers, for instance, in competition with Bell such as IBM, CGE, Remington Rand and Westinghouse to be as Canadian as Bell?

**Mr. Zimmerman:** I certainly would not if we are talking about the ownership shares. As far as the Canadian content of many of their products is concerned and how much labour is involved and how many jobs are created, I think they are comparable Canadian companies, yes.

**Mr. Stafford:** But a wholly-owned subsidiary is hardly Canadian-owned.

**Mr. Zimmerman:** I agree in that context it would not apply.

**Mr. Stafford:** For example, in the communications business the largest owners of community antennae are Cable TV systems in Canada, Famous Players and the Columbia Broadcasting System. They are not really Canadian, are they?

**Mr. Zimmerman:** Not in the context of ownership. But if you look at them numerically—and this is emerging rapidly as an entrepreneurial activity—I think you will see there is a very high content of Canadian ownership. But again you have to look somewhat outside the Bell areas to find this entre-

preneurial flavour. You have to talk to Bell and there is an element of choice in who gets into CATV within Bell systems in my understanding of the marketplace today.

• (10:20 a.m.)

**Mr. Stafford:** I just have one more question in relation to this in connection with, say, the purchase of telephone switchboards, sets of exchanges or telephone communication apparatus which is sold in competition with Bell. I understood at the first meeting I attended, I think it was with the Bell Telephone people, several other companies were named. I have in my notes, Ericsson of Sweden, Siemens of Germany, I.T.&T. and General Telephone, both of the United States and Philips of Holland as the competitors, all five being foreign companies, and that Northern Electric is the only one who compete directly with them and were it not for them, as I remember out of the information which they gave us, possibly in excess of \$200 million a year this particular type of equipment would have to be purchased outside of Canada, from one of these five companies. Is that a correct statement? I think somebody in Bell Telephone said it. Is that correct?

**Mr. Zimmerman:** Yes; to the best of my knowledge I would subscribe to that and I do not want in any way to detract from the world leadership role they have earned in the telephone type equipments. They are a world competitor and within Canada are far and away the mostly broadly based manufacturer in that field. It is in the peripheral fields that I take exception to their activity.

**Mr. Stafford:** But when you said, as I originally stated that, Bell's competitors are Canadian in every sense of the word, would you explain just again what you meant? By my questioning my meaning of that was not correct, was it?

**Mr. Zimmerman:** No.

**Mr. Stafford:** What was your meaning?

**Mr. Zimmerman:** I mean the competitors in which they are confronting ourselves, the CATV operators, the private telephone communications manufacturers, the area outside the telephone business, because there is hardly an element of secondary electrical manufacturing in which Northern and Bell are not

involved. Now, this touches the whole variety of intercoms, wire and cable, digital systems—you are getting into computers—so that as we are talking telephone equipments and telephone competitors in this, I quickly agree with you, they are in a class by themselves. But I think to wrap that posture around all the other peripheral things and claim that they are the only Canadian is a distortion of the facts.

**Mr. Stafford:** But because they are there, because they are owned by Bell and because a wholly-owned subsidiary of Bell Telephone is not the easiest thing to be taken over, say by purchases of shares by Americans, in reality Northern Electric is a good thing for Canada and without them probably we would have a balance of payments of possibly over \$200 million more. Is that correct?

**Mr. Zimmerman:** I think Northern Electric and The Bell Telephone is a very good thing for Canada. I think it could be a lot better if it were regulated and its role defined. I am not subscribing to splitting these two or downgrading their performance in the telephone industry; not at all, but I think the obligation on a monopoly to satisfy a public need should be clearly defined and then regulate it so that it is satisfying a public need, and that the other sectors of the economy are not being hurt by the monopolistic aspects flowing out in an unregulated way and they pre-empt.

**Mr. Stafford:** Just a final question. To go back to an answer you gave a few minutes ago, that if they could show that they did make a profit on each of these individual businesses not related to the telephone apparatus, it does in effect, perhaps, help three million subscribers which would be a far larger proportion of the shareholders of any company in Canada, would it not?

**Mr. Zimmerman:** It would help the subscribers if what you say could be shown clearly, I agree. But again I suggest to you that helping three million, or whatever the number is in Ontario and Quebec, and ignoring the other segments of the economy is taking, in my view, a very narrow view of what is desirable in Canada, a trading nation, where secondary manufacturing has got to be the tool with which we raise our standard of living. If we are going to put all our chips behind Bell Northern in the electrical end, I



just say this is not warranted by the facts and the experience we have had thus far. To take a tremendous record in telephone and then to bless it with all the other things in telecommunications is not I think recognizing all the forces and disciplines at play in this rather involved area.

**Mr. Deachman:** Mr. Chairman, I want to follow up just for a moment a question or two which the previous member raised that have to do with the ownership of the company and its record. I have before me, Mr. Zimmerman, the Survey of Industrials, 1967, at page 221 of which appears the item covering the activities of Industrial Wire and Cable Co. Ltd. I want to refer to total sales for 1964 which were approximately \$7.8 million; for 1965, approximately \$11.1 million; and for 1966, \$17.8 million. In the light of the sales record of the company, one could not really say that you come here for relief, can one? This is a pretty good effort for a Canadian company.

**Mr. Zimmerman:** I am not going to apologize for what success we have had.

**Mr. Deachman:** You are not apologizing for the successes of the company.

**Mr. Zimmerman:** No; I would suggest it might have been better had some other things prevailed in the marketplace but we are not here as petitioners for relief.

**Mr. Deachman:** No; I notice that in 1964 you had net earnings of \$589,000. In 1965 your net earnings were just a little over \$1 million and in 1966 your net earnings were a little over \$1.6 million. So, your net earning picture has been pretty good too, and so really we could not say that you have been oppressed by a monopoly, could we? We would not want to say you were coming here for that purpose. Let us compare this with Phillips Cables Ltd. which is on the same page, 221 of the Survey of Industrials, a competitor of yours. Their net sales in 1964 were \$37 million, in the next year \$44 million, and in the next year \$59 million. They were a very successful company but not nearly as successful as you were, sir. How do you account for that? How is it that you have been able to show such a much better a record in increase in sales and extension into the market than Phillips Cables Ltd.

**Mr. Zimmerman:** Well, not to claim any great superiority of judgment or management nor to appear unduly modest, I think they are not exactly comparable companies. I think you should realize that in those sales and earnings figures were acquisitions, rather meaningful acquisitions on our part which, to the best of my knowledge, Phillips did not have to sort of meld in increases. On a participation basis within the markets that we do compete in, we would like to think we enjoy a little bigger share of things today than we did compared with Phillips a little while ago but not in the relationship of these figures.

**Mr. Deachman:** I want to refer now to the question of the ownership of the company which was previously raised. There are a couple of points I would like cleared up. I note in the list of directors which appears in the Survey of Industrials, the name of Mr. C.P. Clare of Chicago, who seems to be the only non-Canadian resident among your list of directors. Can you tell us something about Mr. C.P. Clare and his relations with the company?

• (10:30 a.m.)

**Mr. Zimmerman:** Yes; Mr. Clare is a graduate from B.C. His home was in British Columbia. I suppose he is a man of about sixty. I met him in a business connection in 1955. We have always had a personal rapport. At one point I was working for a Canadian subsidiary of a company of which he was executive vice-president, Universal Controls of New York. My association with Industrial Wire arose very directly through my association with Mr. Clare. I was working for another company and he informed me that they were disenchanted with their wire company in Canada, it had no mix with what they were doing and they would like to unload. Also they had management problems so, in a word, he offered me an opportunity to dispose of a company and take over its management.

I saw it as a personal opportunity and I joined the company as president and lined up my financial backing and, in the course of time, we acquired entirely the shares from Universal Controls. Through all of this period Mr. Clare had been a director of Industrial; we had this personal relationship. He has remained strictly on my request. I enjoy the privilege of selecting my directors and Mr.

Clare has been a director since my first joining it. His financial interest in the company is limited strictly to a qualifying share and he represents no interests. He finds it very much a personal association, and when he comes to directors meetings it is a personal thing at my home, so that is Mr. Clare's position.

**Mr. Deachman:** I refer now to page 2376 of Moody's Industrial Manual, 1966, under the subject, Universal Controls. There is a paragraph here which says:

In 1958, acquired Industrial Wire and Cable Limited, Toronto, for \$3,000,000

And then in brackets,

(sold in Jan., 1962)

Can you throw a little more light on that sentence? Industrial Wire and Cable apparently was a subsidiary of Universal Controls at least between the years 1958 and 1962. When it was sold in January 1962, who was it sold to?

**Mr. Zimmerman:** I think we had alluded to it but I will go into the detail. We incorporated UCH holdings as a Canadian company with entirely Canadian interests and the shares which Universal Controls had were sold to this shareholding company which retains that ownership to this day.

**Mr. Deachman:** Let me try to get this clear, UCH Holdings is a holding company which bought a Canadian holding company...

**Mr. Zimmerman:** No, no. It bought the shares of Universal Controls.

**Mr. Deachman:** ... which bought the shares of Universal Controls or of Industrial Wire...

**Mr. Zimmerman:** I am sorry; of Industrial Wire that Universal Controls owned.

**Mr. Deachman:** That Universal Controls owned, and you are on the board of UCH holdings.

**Mr. Zimmerman:** Yes, I caused the company to be incorporated and I am on the board.

**Mr. Deachman:** Let me refer again to the Survey of Industrials at page 222. It refers to your debenture holdings.

Under an arrangement completed with Universal Controls Inc. in November 1963, the original issue of \$2,500,000 of

6% conv. debts. was exchanged for \$2,000,000 non-conv. Series A debents. and \$500,000 conv. Series B debents., neither series bearing interest.

Can you comment on the debenture holdings now of Universal Controls? I presume, then, the company issued debentures in exchange for that stock, did it? What was the significance of the debenture issue at that time?

**Mr. Zimmerman:** I will run through this quickly. The company that was purchased by Universal Controls in the first instance was a \$3 million cash deal and...

**Mr. Deachman:** Industrial Wire and Cable was bought by Universal Controls in 1958 for \$3 million. Is that correct?

**Mr. Zimmerman:** Yes; let us just watch, though. There is a change in name here that is significant and rather subtle. Industrial Wire and Cable Limited, a private company, was purchased for \$3 million in 1958 I think, and subsequently, it was acquired by the Associated Standard Wire that was listed on the Toronto stock exchange, and that undertaking involved the setting up of a proportion of this original \$3 million investment as equity and the great bulk of it—\$2.5 million—as debt. That is where the debenture issue has its roots. This acquisition by the publicly listed company, as it was then, had a name change. Associated Standard was not a name that we liked so we moved Industrial Wire and Cable Company Limited up on top. At this point we had, just to keep ball park figures, I think around five or six hundred thousand dollars of the Universal holding in an equity position and \$2½ million in a debt position. That is the root of the debenture issue and its reasons.

**Mr. Deachman:** Is it correct to say that you have repatriated the shares of Industrial Wire and Cable which were owned by Universal Controls?

**Mr. Zimmerman:** That is right.

**Mr. Deachman:** Into UCH holdings?

**Mr. Zimmerman:** That is right.

**Mr. Deachman:** In UCH holdings as a Canadian owned firm?

**Mr. Zimmerman:** That is right.

**Mr. Deachman:** I have one other problem and this is the question of how



far Bell Telephone as the operator of a telephone company should be permitted to get itself involved in other forms of service in the telecommunications field. We in this Committee are pretty familiar with the CPR which has been before us on a number of occasions. While I must admit that it is so complicated it drives members of this Committee up the wall, how can we agree with you that the telecommunications field should be parcelled up to such a point that a company like Bell Telephone remains strictly in the telephone field and in no other aspect of communication, when we have companies such as the CPR which was established as a monopoly and finds itself in a multitude of fields and even now in a communications field in direct competition with The Bell Telephone? Just how do we square all this in our own thinking here as members of Parliament.

**Mr. Zimmerman:** Well, I must like you plead very limited expertise in matters relating to railways. But I think there is one very large factor present in the Bell situation that is not in the CPR or the railways or any other monopolistic situation. That is, its dual role of a service company and a manufacturer, and one facet under nominal regulation and the other completely unregulated. We could write theses on this. I just do not think there is any analogy, or any example, to be drawn from these two areas, because of the structure of service manufacturing, for one thing, and the trend in technology and its rapid development. Where is this leading? Again, there is no parallel between these two roles. I am afraid my examples have been...

• (10:40 a.m.)

**Mr. Deachman:** Well, I think that is a rather philosophic argument.

I will let it go at the moment, Mr. Chairman.

(Translation)

**Mr. Émard:** Mr. Chairman, do we have an interpreter this morning?

**The Vice-Chairman:** If you just want to wait a moment, Mr. Émard. Yes, go ahead.

**Mr. Émard:** Mr. Chairman, I would like to continue along the same line as my predecessor, Mr. Deachman. Unfortunately, I have

to rely on my own translation because we have had no translation of the brief Industrial Wire and Cable which was given to us. In spite of the Chairman's promise, the translation of No. 5 is not yet ready.

I would like to know how many shares have now been issued by Industrial Wire and Cable?

(English)

**Mr. Zimmerman:** Well, on the matter of the availability of the French translation, we provided these along with the English. However, in answer to your question about the issued shares, approximately 1,720,000 have been issued.

(Translation)

**Mr. Émard:** What is the present market value of the shares?

(English)

**Mr. Zimmerman:** As of last night I think it was around \$4.

(Translation)

**Mr. Émard:** If I refer also to the Survey of Industrials, I see that you have 500,000 Series "B" debentures, convertible at \$1 between 1970 and 1971.

I would like to know to whom these debentures belong. Do they belong to Industrial Wire or UCH Holdings?

(English)

**Mr. Zimmerman:** The beneficial interest on that debenture ultimately comes to UCH Holdings.

(Translation)

**Mr. Émard:** I was very proud, as everyone else, to see, if I refer to page 4 of your brief, that:

(English)

Industrial Wire is a publicly-owned Canadian corporation. More than 99 per cent of its approximately 1,200 shareholders are Canadian residents. This is a higher percentage of Canadian shareholders than Bell has.

(Translation)

I am very happy to know that 99 per cent of the shareholders of the company are Canadian. I think it is important, to know, when the representatives of a company come



before the Committee, that the company is a Canadian firm. I think the Committee, would react differently, I know that I would react quite differently if it were a subsidiary of an American firm coming before us. Now I would like to establish that your company is really Canadian. I would also like to know, who holds the majority of the shares, and who are the owners of these shares. If I refer to *Insiders Trading Report* on page 82, it is stated that UCH Holdings holds 650,000 shares of the Industrial Wire and Cable Company. It is also stated that London and Brussels Investment Ltd. holds 650,000 of the company shares.

Are these the same ones or does each of these firms have 650,000 shares?

(English)

**Mr. Torrance:** They are the same shares. That is a mistake in the report that the Ontario Securities Commission put out.

(Translation)

**Mr. Émard:** To whom do these shares belong? To London and Brussels or to UCH Holdings?

(English)

**Mr. Torrance:** UCH Holdings.

(Translation)

**Mr. Émard:** Does UCH Holdings have any other shares besides these 650,000?

(English)

**Mr. Torrance:** No.

(Translation)

**Mr. Émard:** Do they hold the majority of shares in the company?

(English)

**Mr. Torrance:** They have 650,000 shares out of 1,720,000 shares.

(Translation)

**Mr. Émard:** Where is the head office of UCH Holdings?

(English)

**Mr. Torrance:** In my office.

(Translation)

**Mr. Émard:** Who are the main shareholders, I mean the large shareholders who, if they combined their shares, could control the company?

(English)

**Mr. Torrance:** The largest shareholder of Industrial Wire and Cable?

**Mr. Émard:** No, no; of UCH Holdings.

**Mr. Torrance:** There is fundamentally only one shareholder of UCH Holdings, and that is London and Brussels Investments Limited.

(Translation)

**Mr. Émard:** Is London and Brussels a Canadian firm?

(English)

**Mr. Torrance:** Yes, it is; it is a Quebec Company.

(Translation)

**Mr. Émard:** Does UCH Holdings have any interest in any other firms or are they limited to holding shares of Industrial Wire and Cable?

(English)

**Mr. Torrance:** Solely shares of Industrial Wire and Cable.

(Translation)

**Mr. Émard:** In a document from the *Toronto Stock Exchange*, published on July 16, 1964, and signed by the president, Mr. Zimmerman, we read, in the paragraph 16:

(English)

Names and addresses of persons whose shareholdings are large enough to materially effect control of the company.

(Translation)

And I am reading what is written here:

(English)

UCH Holdings Limited owns beneficially 750,000 of the outstanding 1,389,000 common shares at the time...

And this was in 1964.

...in the capital stock of the company. As a result of the foregoing, UCH Holdings Limited is in a position to control the Company.

**Mr. Torrance:** It was at that time, but things have changed. They have sold 100,000 shares, reducing their holding from 750,000 to 650,000; and more shares have been issued in the company, bringing the total up from

1,300,000, as it was then, to 1,700,000, as it is now.

(Translation)

**Mr. Émard:** No one company controls Industrial Wire?

(English)

**Mr. Torrance:** Obviously 650,000 shares is a lot of shares; but that is the biggest holding of any company.

(Translation)

**Mr. Émard:** And if we look a little further in the same paragraph 16 it is stated:

(English)

All the shares of UCH Holdings Limited are beneficially owned by London and Brussels Investments Ltd. whose address is 1155 Dorchester Boulevard West, Montreal, P.Q.

Is this still the same today?

**Mr. Torrance:** Yes.

**Mr. Émard:** UCH Holdings' shares are held by London and Brussels Investments Limited. I would like to ask the same questions that I asked before.

(Translation)

The Head Office, as we can see, is in Montreal. This is still true?

(English)

**Mr. Torrance:** Yes.

(Translation)

**Mr. Émard:** Who are the main shareholders of London and Brussels?

(English)

**Mr. Torrance:** I am afraid I have no idea.

(Translation)

**Mr. Émard:** How is it that you do not know who are the main shareholders of London and Brussels? Would the company President, Mr. Zimmerman, know?

(English)

**Mr. Zimmerman:** No, I do not know.

• (10:50 a.m.)

**Mr. Deachman:** May I ask a supplementary question? In other words, you really do

not know who are the owners of London and Brussels Investments Ltd., and, if the control of the company rests ultimately in London and Brussels then you do not know who controls the company, and your previous statement that this a Canadian-owned or controlled company does not stand up?

**Mr. Zimmerman:** No.

**Mr. Deachman:** Unless you really do not know who owns London and Brussels Investments Ltd. your previous statement does not hold up. You do not know whether or not Canadian control exists? Is that correct?

**Mr. Torrance:** No. The question was who were the shareholders in London and Brussels Investments Ltd. The answer is that we do not know. The answer to the question whether Industrial Wire is owned by Canadians we do know. The answer is that they are. Mr. Zimmerman will solve this riddle for you to the extent to which he can.

**Mr. Zimmerman:** The ultimate...

(Translation)

**Mr. Émard:** I would like to know exactly. I was told that Mr. Zimmerman would answer this question. I would like to know who are the shareholders of this company.

(English)

**Mr. Zimmerman:** No. The shareholders of this company and its corporate structure, I am not personally, in a legal way, informed on. I know the interests; and the reasons which I discussed previously, for some people not coming out in the open and confronting Bell, explain in its entirety the apparent mystery of who is associated with me and my associates in Industrial Wire & Cable Co. There are large shareholders who feel no embarrassment. Three of them are sitting at the table here. We have substantial blocks of industrial stock. The holding company was incorporated by myself and Mr. Torrance to provide a route for investment without disclosure because of our involvement at the time with The Bell Telephone Company of Canada. It is just that simple.

(Translation)

**Mr. Émard:** I do not know why you object to giving us the information, because this information is not confidential, it can be obtained at any time.

I have before me the report "Annual Returns" under the "Corporations and Labour Unions Returns Act," of September 1966, I read: "London and Brussels" and anybody can get this. All you have to do is to go to the Parliamentary library here and the research department will hand it over. It only takes five minutes. In this report appear the name of the President and Director: J. H. E. Colby, 4065 Gage Road, Montreal; Mr. W. C. Leggett, vice-president and director, 647 Grosvenor Avenue, Montreal; L. Prime, secretary-treasurer and director, 3235 Ridgewood Avenue, Montreal. I cannot see why you wish to hide the fact that the London and Brussels Investment Ltd. has directors. These directors exist, this is a known fact; you have but to consult the report I have previously cited.

But this is not what primarily interests me. What interests me most is that the three directors I mentioned hold three shares which can be termed: "directors' qualifying shares". But this company has issued 40 shares and, consequently there remain 37 shares. Consulting that same report, I read in paragraph 14...

(English)

In paragraph 14 there appears the following:

Name and address of each corporation holding 10 per cent or more of the total issued shares of any class and the number of shares of each class so held.

(Translation)

...and yet, under the name, we have "Hemisphere Industrial Holdings Limited", P.O. Box 1447, Nassau, Bahamas, and the number of shares is 37.

Then, even if the financial structure of your firm is difficult to determine, in going from one company to another, we find that your company is controlled in the Bahamas. So, I do not see how you can say in your brief that it is a Canadian company, after the geneology of the company has been fixed. I will give you a diagram so you may be able to acknowledge it, for it is difficult to establish this corporate relationship.

The "Industrial Wire and Cable" company is controlled in part by "UCH Holdings" and "UCH Holdings" is controlled in turn by "London and Brussels"; "London and Brussels" is controlled by this last company:

"Hemisphere Industrial Holdings" in the Bahamas. Now, what is this company "Hemisphere Industrial Holdings" in the Bahamas, Who, are its principal shareholders?

(English)

**Mr. Torrance:** Mr. Émard, the answer to your question is that the corporate lineage is, I am sure, as you have traced it. I have not traced it, and I admire you for your homework.

The fact of the matter is that when you get back beyond Hemisphere Holdings you get back to the Canadian shareholders whose identity will not be disclosed for the reasons that Mr. Zimmerman has given to you. We do not know precisely the shareholdings when you go back because it was not meant that we should. In terms of who the people are, when you get to the end of the line, they are Canadians. That was the question and that is the answer. Who they are we are not prepared to divulge, for the reasons that Mr. Zimmerman gave.

We have explained to this Committee before, and perhaps we should repeat, that there are certain difficulties which people experience in the marketplace, and in other places, if they have the effrontery to confront The Bell Telephone Company. We have that effrontery, and as individuals we do not mind standing up. There are certain people associated with our Company who do not feel the same way, for reasons best known to themselves.

To the extent that that is an unsatisfactory answer to you, Mr. Émard, all I can do is apologize. That is the situation and that is where we are.

(Translation)

**Mr. Émard:** I do not want to take the whole credit for the research that was carried out. As I explained to you a little while ago, when we are in need of any research, we contact the research department here, at the Library of Parliament. We can obtain from them all the documentation we desire or need. So, I thank the library staff for having done the work for me.

Thus, as I said to you a little while ago, if it is a question of a Canadian company coming before us here and asking to have certain of the powers to be given to The Bell Telephone Company rescinded, I agree. But if it



is that of an American firm coming before us or a European firm or any other, I think that my attitude will not be the same as in the case of a strictly Canadian company. Mr. Zimmerman, if I refer to page 137 of proceeding section number 4, where you say and I think these are the questions:

(English)

Who is in control of this company?  
Who is making its day-to-day decisions?  
Who says that they are going to buy a telecommunications company, or get into battleships, and so on? With whom do these decisions lie? Who makes them?  
Who can question them? Who arbitrates?

(Translation)

So, if these questions are valid for The Bell Telephone, I think they are just as much so with regard to Industrial Wire and Cable. So, I would like to have you explain a few things for us. Is Industrial Wire and Cable a Canadian company or is it a firm controlled in the Bahamas?

(English)

**Mr. Zimmerman:** The answer is as already stated. It is a Canadian-controlled and run company, and for reasons that are well-understood and have been stated previously, the identities of all of the shareholders have not been disclosed. I think we have all been sufficiently involved in business to know that it is a common practice, depending on the nature of one's operations, to have foreign corporations. In the present situation the need to determine the point of control I suggest you use is a very secondary one when it comes to our position in these proceedings. Either our views, facts and so on stand the light of day and commonsense or they do not. Politically I am sure they may lose some of their impact if they are clearly European interests or American interests that are speaking to the point. I do not think the analogy drawn between my comments relating to the control of The Bell Telephone Company and Industrial are directly comparable. But be that as it may, I again give you, as we have in other circumstances: this company is owned and controlled entirely in Canada. It has very compelling reasons, because of the Bell overhang, not to disclose all the shareholder identities, for the economic results of this are very punitive. And again, this is not an isolated example of Bell's pres-

sure; it has been documented in front of this Committee before.

• (11:00 a.m.)

**Mr. Bell (Saint John-Albert):** Mr. Chairman, may I ask a supplementary question along the lines of Mr. Deachman's. Can I ask if, to the best of your knowledge, the control of this London and Brussels Investments Ltd. is in the hands of Canadian citizens?

**Mr. Zimmerman:** It is; resident in Canada.

**Mr. Rock:** I have a supplementary question.

**Vice-Chairman:** Mr. Émard.

**Mr. Rock:** If Mr. Émard has no objection, it would fit into this...

**Vice-Chairman:** You may ask one question.

**Mr. Rock:** Mr. Zimmerman, when you say that it is controlled in Canada, do you mean it is managed in Canada?

**Mr. Zimmerman:** No.

**Mr. Rock:** Financially controlled in Canada?

**Mr. Zimmerman:** Financially controlled and owned in Canada.

**Mr. Rock:** We are talking about UCH Holdings?

**Mr. Torrance:** That is fundamentally what we are talking about. UCH Holdings Ltd., through the London and Brussels Investments Ltd. to the Hemisphere Holdings Ltd., back to Canada; that is the fact.

**Mr. Rock:** You are not prepared to divulge in which manner? You are just making this as a statement...

**Mr. Torrance:** Well, we do not know in what manner.

**Mr. Rock:** If you do not, how are we to know?

**Mr. Torrance:** Mr. Zimmerman and I have tried to explain to this Committee...

**Mr. Rock:** I can understand that, but I will have to accept Mr. Émard's facts rather than yours.

**Mr. Torrance:** We do not dispute for one second Mr. Émard's facts; not for one second.

(Translation)

**Mr. Émard:** Mr. Zimmerman, I do not understand why you refuse to reveal the names of the shareholders of this last company, i.e. Industrial Holdings? You also refused to tell us previously, in the instance of the Company London & Brussels, Investments Ltd. when the facts could be very well known by all. You have but to consult the Annual Returns required under the Corporations and Labour Unions Returns Act. But you did not want to tell us who were the shareholders in that case. It seems strange all the same, for you certainly know much more about it than we do and yet, you refuse to give us the information. Why is it, then, that the same thing is being repeated now in the case of Hemisphere Industrial Holdings?

(English)

**Mr. Zimmerman:** I think the answer is very clearly that the nominees that were identified in London and Brussels Investments Ltd. hold three shares, and there was no disclosure made by you or by me that really lifted the veil. I come back to my main point; you may trace the whole line and you still come back to people who, for reasons well understood by me and by them, wish their interest in our activities in these hearings not disclosed for fear of punitive reactions from Bell Telephone. Now, if that does not seem a sufficient reason to you, Mr. Émard, fine; it is sufficient to us. And I repeat again, under oath or wherever you like, that this Company is owned and controlled in Canada by resident Canadians. There is certainly a great PR that Mother Bell is all loving and so on, but these are not the facts of life in the market place. We have enterprises to run in the private sector, and they have choices to make as to where they will give their service and their custom, and these would react very adversely on our associates were their identity disclosed.

(Translation)

**Mr. Émard:** This does not answer the question, I asked you just a moment ago.

Why did you refuse to tell us the names of the shareholders of London and Brussels, Investments Ltd. when it appears as a public document?

(English)

**Mr. Torrance:** Mr. Émard, we have not checked the public documents. The fact of the matter is that we did not know who owned the shares of London and Brussels Investments Ltd. and I am quite happy to accept your word for it if you have checked the public documents. For all I know they may have been changed in the last week. But the fact of the matter is that you get beyond London and Brussels and you get down to Hemisphere Holdings or whatever company it is you named, and that is outside the country, and there are no Corporations and Labour Unions returns to check, and this is the very reason for putting it down there in the first place as we are led to believe by the people who did it. So that you have to come to a dead end and cannot find out.

Now, we have explained the reasons for doing that and our certainty as to who the people ultimately are behind it, and I am afraid you will just have to take our word for it because we cannot say anything more on the subject.

(Translation)

**Mr. Émard:** I have no intention of pursuing the discussion in this regard, but nevertheless we have now determined that control is exercised from the Bahamas. In view of this fact, does it still remain a Canadian company? Every body must decide. This is all I have to say.

(English)

**Mr. Torrance:** With respect, Mr. Émard, you have only reached that conclusion if you say that we are not telling you the truth, and again ...

(Translation)

**Mr. Émard:** No, not at all...

(English)

**Mr. Torrance:** Well, that is the case, Mr. Émard.

(Translation)

**Mr. Émard:** No. There is a difference. I did not say that you did not speak the truth. I said that you did not say the whole truth.

(English)

**Mr. Torrance:** We have stated the truth, we have given the answer to these questions



which you have asked. You started off your remarks by saying that it made a difference to you whether this was a Canadian company or whether it was some other kind of company.

Now, first of all, do not forget we are talking about UCH Holdings, and therefore we are only talking about 650,000 shares out of 1,700,000. So let us get that straight first; we are not talking about 51 per cent of the company, or any higher percentage. We are talking about 650,000 shares, and we have explained to you that there may be various and many corporate circumlocutions and they were put there on purpose. But the fact of the matter is that the shareholding is Canadian and the identities are not being divulged for the reasons given.

**Mr. Rock:** I have a few questions at this moment. Of course, Mr. Zimmerman, your prepared brief here is also in force as well as the more or less amended one which was read during the ...

**The Vice-Chairman:** Mr. Rock, will you please use the microphone? There is one right next to you.

**Mr. Rock:** Your prepared brief that you submitted to us is in force as well as your amended one in the sense...

**Mr. Torrance:** I am not sure, Mr. Rock, precisely what your point is.

**Mr. Rock:** In other words, you were not following exactly your brief word for word?

**Mr. Torrance:** Oh no, we supplemented it, but the brief itself remains.

**Mr. Rock:** Remains. On page 9 of your brief you stated in general terms the future needs and future potential of communications and electronic highways, what they will serve in the future and the whole gamut which new telecommunications will bring. You have cited these needs and all that, and you seem to be sort of against The Bell Telephone Company receiving the powers to control these new electronic highways. Is that not so?

**Mr. Zimmerman:** No, not precisely, Mr. Rock.

**Mr. Rock:** Well, I would like that explained, because this is the impression I have.

**Mr. Zimmerman:** I see.

**Mr. Rock:** May I put it this way: you have no objection to their controlling this electronic highway?

**Mr. Zimmerman:** Under regulation, that is right.

**Mr. Rock:** Under regulation. It would be under regulation; this is normal.

**Mr. Zimmerman:** It is not under regulation in the sense that these electronic highways, as we have dubbed them, are an obligation of The Bell to provide to all comers as a common carrier. Only telephone is an obligation that they face. If I for example, want to interconnect two buildings with pieces of input and output equipment and want to lease a line from The Bell Telephone to do that, it is by their leave and permission only. I have no right to get it. I cannot demand it. They sit with the right to give it. But if I want a telephone, that is different matter; they must provide it.

**Mr. Rock:** Yes, but I do not think that any municipality would refuse any person. You have cited a case of building to building in a municipality. I do not think any municipality would refuse the right of that company to put in their own communication system without using the ducts of Bell Telephone to connect some communication system of their own between two buildings across any roads.

**Mr. Zimmerman:** Oh, agreed. But then we are saying that Bell Telephone is not a common carrier.

**Mr. Torrance:** Excuse me, Mr. Rock. Across roads it is not agreed. You would have to make your own arrangements.

**Mr. Rock:** Sure. Have you heard of any municipality refusing this right?

• (11:10 a.m.)

**Mr. Torrance:** Let us face it. I have never heard of anyone asking for the right.

**Mr. Rock:** You would not because they would not have to go before a board. All they would have to do is go before the municipal council and they would get that right at any time. Each time The Bell have to put up any poles they still have to get permission from the municipal council as to the



manner in which it is to be done, preparations and all that.

**Mr. Zimmerman:** They have the right.

**Mr. Rock:** They cannot be refused but they still ask permission.

**Mr. Zimmerman:** This is really, I think, our point: that if telecommunications, with all its marvellous technological developments, can be put behind a common carrier, that is in every sense a common carrier open to all, on rates that are regulated with choice not left in The Bell's hands as to whom they will take and when, this is my concept of a telecommunications common carrier.

**Mr. Rock:** Well, at the same time you mentioned something about the threat to national security. Do you not feel that there would be more threat to national security if everybody could use these lines?

**Mr. Zimmerman:** No. These lines are...

**Mr. Rock:** Because they would have access to the plans and specs and everything else if everyone had the right to use these lines in comparison to one company, which would be Bell. You were the one that mentioned national security.

**Mr. Zimmerman:** That is right, and I think my implication here was the lack of privacy on Bell circuits as the situation exists today. They can monitor your phone and mine.

**Mr. Rock:** Yes, but they would still be able to do so.

**Mr. Zimmerman:** Who disciplines the communications over the Bell system but Bell? Who disciplines our mail system? We have a security. There is a right of privacy established. This is the national security element. I do not think the networks running down the streets are known to everybody as an element of national security. I am just not competent to make that kind of judgment but I am competent to say that if there is no right to privacy, this is certainly an element of national risk.

**Mr. Rock:** Well, that is your opinion.

**Mr. Zimmerman:** Obviously.

**Mr. Rock:** I will accept your opinion, then. Mr. Zimmerman, you also mentioned some-

thing about the valuation and taxes that could be derived. I do not know why you brought that in your brief. You touched on practically every little corner just to sort of downgrade The Bell or something, and you mentioned that there should be more exploration into the field of taxation in regard to Bell Telephone as far as their poles are concerned and the electronic highway that we were talking about. Do you not feel that this itself would be strictly a provincial matter, when it comes to valuation of their equipment or valuation of their poles and lines, rather than a federal matter?

**Mr. Zimmerman:** Let me just put it in context and I will let you be the judge of whose jurisdiction it is in. I am saying that as long as we are talking telephone business, I have no criticism of the special fiscal arrangements they have with the municipalities because this is satisfying a public need. But when it is applied in things outside the telephone we have special interests and those interested in things like CATV other than The Bell then do not meet on equal grounds. I am just not competent to tell you where I think the taxes should go. I only point out that in fairness, if we are talking the private sector against the monopoly sector, there is, for good reasons in my view, a special tax deal. Fine on telephones; but let us watch when we pull out a little sector and say: "All right, now CATV; now on-line banking; now educational TV" and other things which Bell all rolls up as telecommunications and says that that is telephone. That is where I disagree.

**Mr. Rock:** At our last meeting, we had the Association of Ontario Mayors and Reeves. At the time they went into more detail about the taxes and I gave them the example that in the Province of Quebec there does not seem to be the same deal as in Ontario, and therefore I feel this is more a provincial matter than a federal matter as far as evaluation is concerned because in Quebec, in the city of Lachine in particular, they include on their valuation roll all the poles and all the lines, even the TV lines and everything on the poles. Therefore, if they want to do the same thing in Ontario, it is up to them to go to the provincial legislature and ask for that power if they do not have that power.

**Mr. Zimmerman:** I subscribe to your logic in the way it is put. I just again back into this by saying that The Bell was created by Parliament to fill a public need—a telephone company. Now we are asked to spread this around. There is a whole network of legislation that has developed over the years under the concept that we are talking about a telephone company and when you change that, there are a lot of ripples that roll out from it. In that area, I say, look at the taxation as it would apply on the telephones where it is probably equitable, but now apply this in other areas which are not telephone. They are not a public need. They are very specialized needs and I suggest to you that the network of legislation begins to come unravelled and it becomes inequitable.

**Mr. Rock:** Do you not think, then, Mr. Zimmerman, it would be better for us to allow it as telecommunication rather than just telephone?

**Mr. Zimmerman:** I think it would be disastrous.

**Mr. Rock:** So that we would not have all these scattered affairs all over the place. It is the same thing with the BNA Act in the past and the hundred years of its concept—I mean at the time that it was written and studied. At the time there was just train travel. There were no trucks. There were no cars yet invented so they thought there was no need for any more roads and highways; they just said “military roads” and yet today the trucks are the biggest competition against our railway system. Actually, if at that time the trucks had been invented, I am sure that in the BNA Act the federal government would have had the powers at that time for all highways rather than just call them military roads. But this was a hundred years ago and it is the same thing with the telephone. At that time the telephone was just invented and the telegraph was just invented. If at that time they had had all the other types of communications systems which we have today, surely they would have given the same powers rather than spread.

**Mr. Torrance:** I would like to make just one comment here. The Bell Telephone, in requesting changes in its charter, has asked for the right to construct and erect its lines of telecommunication along public streets, so

obviously since it is a request in the Bill, it is relevant to discuss it. We have discussed it so far in terms of municipal assessment. We have also discussed it in terms of the obligation of Bell Telephone to provide only telephone service. I think it is significant that when they presented this Bill before you, they did not ask that their obligation be expanded to provide telecommunications services. It is still just an obligation to provide telephone service but they are asking for the right to run their lines of telecommunication down public streets. Now, that equation does not add up to one in my books.

**Mr. R. A. Smith, Q.C. (Counsel for Industrial Wire & Cable Co. Limited):** To add to that, Mr. Rock, the principle of economics which we are alluding to is that the spreading of the work done by The Bell Telephone in a regulated public utility into an unregulated, non-public utility field is dangerous. And I think you have raised the point that we are making directly, and that is the decision that your committee is going to have to come up with: are you going to hand it to Bell? And if you are going to hand it all to Bell, is it going to be regulated or not regulated? And the third thing, is it then going to be on the basis that it will be made available to everyone, much as hydro service? These are basic decisions. These are economic matters which will have to be considered no doubt by the experts that you are...

**Mr. Rock:** So, actually, you are not objecting to it, except that you just want it...

**Mr. Smith:** No.

**Mr. Rock:** You are not objecting that The Bell Telephone own and control, say, the electronic highways as long as this is properly regulated.

**Mr. Zimmerman:** That is right, with the proviso that the inputs other than telephone would become special; not public needs but special needs; that they are not in that unregulated area. But definitely they have the telecommunications highway; yes, they have the advantages of Northern's manufacturing for that telecommunications highway. We are not out to make uneconomic or...

**Mr. Rock:** You are against their entering into any other communication field, but you want them to provide the services for the...



**Mr. Zimmerman:** Oh yes. They are the highway. They are the link. They lease these circuits but they are not outside the telephone industry in terms of putting inputs and outputs from this. Then you have the regulated sector spilling into the unregulated sector, and in my view this is where the unfairness and inequity arises. There is nothing in what we are suggesting to you that will cut across the efficiency and economics of a good telecommunications network; we suggest that a line should be drawn between that portion that is monopolistic and regulated and that special portion that is unregulated in the private sector. The analogy, if I might use it again, is the situation in the States where for years this has been recognized, and this is where they are.

• (11:20 a.m.)

**Mr. Rock:** You do not object to The Bell Telephone going into the other telecommunication services, or do you?

**Mr. Zimmerman:** For the linkage yes, but they should not be in the business of equipments, the teleprinters, the facsimile units, the sort of service which they are not compelled to give to everyone because the competitive element enters here. To link teleprinters and to hire the telecommunication links this is their business, and that is where they should be.

**Mr. Rock:** Tell me, Mr. Zimmerman, is Northern Electric giving you a lot of competition?

**Mr. Zimmerman:** Very good competition.

**Mr. Rock:** Very good competition.

**Mr. Zimmerman:** Recently.

**Mr. Rock:** This is one of the reasons that you are actually here?

**Mr. Zimmerman:** Oh, we have a very basic gutsy reason for being here, yes sir.

**Mr. Rock:** I will pass for the time being, Mr. Chairman.

**Mr. Bell (Saint John-Albert):** May I just ask Mr. Torrance to repeat the obligation that he feels Bell Telephone should be asked to assume here again so I can understand it.

**Mr. Torrance:** Their only obligations by statute is in their statute of 1902 by which

they are obliged to provide telephone service to more or less all customers—and I am paraphrasing. To do that they have to have the right to do down streets, and they do have the right to construct and erect their lines of telephone along public streets. They now come with Bill C-104 and say that they would like the power to construct and direct their lines of telecommunications down public streets, but they have not asked that their obligation be to provide telecommunication services, and I say that does not add up. They have a monopoly and their monopoly business must be regulated. It is now. Their telephone rates are regulated; their share issues are regulated. But we submit they only have power to be a telephone company, so that when you regulate their share issues the regulation is there to see that the money they raise gets used for the telephone business, and our telephone rates is the only business they are supposed to be in. So you get to regulate them. But once you get them acquiring companies like Northern Electric, which we still do not think they have any legal power to have because it is not a telephone company, you end up with Bell Telephone itself, because what it does through a 100 per cent subsidiary it does itself, selling screwdrivers, light bulbs, and indeed wire and cable.

**Mr. Bell (Saint John-Albert):** It would not be difficult then to propose an amendment along those lines?

**Mr. Torrance:** Well I think it is fair to say that our recommendations on pages 41 and 42 of our brief comprehend the situation, that they be confined to the business of a telephone company but that to the extent it is economical to use the existing electron highways, as we call them, for other purposes, by all means let them do that. It would be inefficient not to do it. We are not out to harm anyone but we certainly do not want to get harmed ourselves. So the situation should be: Sure let them use telecommunications highways for other purposes but let them not be in a position of saying who they will take, when they will take them, and what equipment will be used on them.

**Mr. Bell (Saint John-Albert):** Thank you.

**The Vice-Chairman:** Before carrying on and while we have a quorum I would ask



someone to move that we print as an appendix the Consent Decree tabled by Industrial Wire & Cable Co. Limited at the meeting on October 31.

**Mr. Pascoe:** I so move.

**Mr. Bell (Saint John-Albert):** I second the motion.

Motion agreed to.

**Mr. Pascoe:** Mr. Chairman, I also had quite a few questions in regard to the operations of the company but I think they have been fairly well covered. For my own information and perhaps for the information of the Committee I might just ask one or two more questions.

On page 118 of this Committee's No. 4 Report you say that your company has five plants and eight sales offices and warehouses across Canada. What business do you have in Saskatchewan? Do you supply the Saskatchewan government telephone with any material?

**Mr. Zimmerman:** No, we do not supply the telephone industry really with anything of any importance.

**Mr. Pascoe:** Do you have an office or a warehouse out there?

**Mr. Zimmerman:** No, not in Saskatchewan, but in Winnipeg and Edmonton.

**Mr. Pascoe:** You said that you used to be, and perhaps you still are, a supplier of wire and cable products to Northern Electric but then they entered into direct contracts with some of your customers. You said:

Northern's pricing reached such low levels that we were convinced it was selling below cost.

As you see it, is that still the situation or have they raised their prices recently?

**Mr. Zimmerman:** No. This was very quickly corrected and I have no hesitancy in saying that Northern, since we confronted this issue publicly, have been among our very best competitors.

**Mr. Pascoe:** Pricewise?

**Mr. Zimmerman:** Yes.

**Mr. Émard:** May I ask a supplementary question on this matter.

**The Vice-Chairman:** Yes.

**Mr. Émard:** You say in your brief that you were convinced that they were selling below their cost, but were they below your costs?

**Mr. Zimmerman:** Mr. Émard, this is a product line and the examples we were alluding to here are ones that have very high elements of basic raw materials that are priced in a commodity market where purchasing volumes and so on do not affect the price. They are also made on machines, which are again open to everyone, and ours are comparable to the largest companies—they might have 20 and we, one. Therefore I can say entirely to my satisfaction that they were selling below their costs, and if it was pertinent at the time probably below mine. These are factory costs we are talking about and the context in which these situations arose was in the bidding on large projects, putting up buildings or plants. The only thing they actually made in the total mix was wire and cable but they were selling screwdrivers, light bulbs and the duct, and the loss leader was wire and cable. This is where it hurt us.

**Mr. Pascoe:** On page 137 of this Report No. 4 you talk about possible better supervision of monopoly situations and you say:

...I think it is fair to say that the Board of Transport Commissioners' performance to date has left much to be desired in this regard.

Would you consider that the new Canadian Transport Commission might have more authority along this line?

**Mr. Zimmerman:** I would hope so. However, we were very disappointed in the listing of committees in that a sector like telecommunications which involves all of us from business, home or wherever you are, was not recognized as having a committee of its own—I think it is still under Railways—and we are vitally concerned in how effective the regulation will be. Now in our view the powers to regulate effectively have always been available to the Board. They can make orders, they can call evidence, they can do just about what they want. Therefore I think that possibly it is not so much a concern with the legislation as with the intent, the substance and the policy that these regulatory boards follow. I have not read it, and you

might comment on what the new Bill gives them in terms of power. The old bill certainly had all the power they needed but there was no follow through.

**Mr. Torrance:** Of course this Committee is called the Standing Committee on Transport and Communications, recognizing the huge role that communications play. The committees set up under the transportation bill have nothing about communications as such; it is transport by rail, water, air, highway and commodity pipe line. Those are the five committees that the transportation bill establishes and we think that something like the FCC's common carrier bureau which deals with telecommunications should be instituted because it is a difficult field.

**Mr. Pascoe:** That is the point I wanted to bring out. Do you think there should be one more committee to look after this?

• (11:30 a.m.)

**Mr. Torrance:** Yes, I think there should be another Committee. In terms of the actual jurisdiction of the Commission itself, I think they have the necessary powers at the moment to properly regulate a telephone company as long as you keep it a telephone company. But if you change the rules...

**Mr. Bell (Saint John-Albert):** It is too bad we did not know about that, Mr. Chairman. We made a hundred amendments and we could have inserted another one.

**Mr. Pascoe:** I have just one more question, Mr. Chairman. On page 117 Mr. Zimmerman says:

I personally put it in the category of GATT in so far as it will bear on our segment of the electrical and communications industry.

Do you see GATT benefiting your Company or any opportunities there?

**Mr. Zimmerman:** Yes, very definitely. There are obviously many forces at play. However, our company rests on at least three of Canada's great natural advantages. We are a storehouse of raw materials and we are a processor of them. We have political and relative labour stability and a native pool of talented technical people. In the world markets that we are in, matters of scale as it would affect companies working for instance in the automotive industry where it is not as machine-paced—we are a very high capital

concentration industry, I see us benefiting greatly by GATT, and I am speaking now of the wire and cable company.

**Mr. Pascoe:** What is your opinion of competition from Japanese or other companies coming here?

**Mr. Zimmerman:** We have one big fear which underlies all our competitiveness, the cost of Canadian raw materials. If the basic resource industries do not recognize that the secondary manufacturing sector of the economy has to buy at world competitive prices at all times, then whatever our shrinking protective tariffs are on our individual products will be negated by selling raw materials to the Japanese, the Germans or anyone else who can put it back in our market and knock us out.

**Mr. Pascoe:** I get the picture pretty clearly. This is all I have, Mr. Chairman.

**The Chairman:** Are there any more questions?

**Mr. Rock:** This is a personal matter but I would like to know, Mr. Zimmerman, whether you own any shares in Industrial Wire and Cable?

**Mr. Zimmerman:** Yes, together with my immediate family, I would say I own about 5 per cent or more of the Company.

**Mr. Rock:** Does your Company sell shares to the employees? Do they create an incentive of some kind to have the employees buy shares?

**Mr. Zimmerman:** Yes, we have an incentive, very definitely, in terms of supporting their financial purchases to the extent that we are allowed. Mr. Torrance, you have been involved here.

**Mr. Torrance:** To the extent that we were able to do so, we have done so. Many of our employees have bought shares on the market and there is an employee stock option plan as well.

**Mr. Rock:** So you feel it is a good idea to have employees involved in buying shares and becoming part owners of the Company that they work for?

**Mr. Zimmerman:** I do, with the proviso that management does not get into the role of



financial consultant or seer. In our business when you put money into our shares this is a speculative venture and I do not think that we should presume to be a pressure to buy on our employees. But on the other hand, this is the route that we have followed in respect of employees who want to involve themselves in the Company shares and need some support at the bank or elsewhere to do this.

**Mr. Rock:** Do you feel that the employees of Northern Electric, which of course is owned by Bell, should also have the same right as Bell employees to buy Bell Telephone shares so they also would feel that they are part owner of the Company they work for.

**Mr. Zimmerman:** I think they do.

**Mr. Rock:** No, they do not, and this is why I am asking.

**Mr. Zimmerman:** They have the right to buy shares if they want to go out in the public market and buy them.

**Mr. Rock:** Oh, in the public market, if there is any available.

**Mr. Zimmerman:** That is right.

**Mr. Rock:** Yes, but I mean in the same manner as a Bell employee.

**Mr. Zimmerman:** I do not think I really...

**Mr. Torrance:** Is your question that employees should have the right to buy Bell shares?

**Mr. Rock:** Yes, because Bell is the owner of Northern.

**Mr. Zimmerman:** I have never really given it much thought, Mr. Rock.

**Mr. Rock:** I am thinking in terms of trying to expand Canadian ownership within Canada and things like that. I am one of the forerunners of the idea that companies should give initiative to employees in this regard and I am glad to hear that your company is doing this because I think it is a good idea.

**Mr. Zimmerman:** I agree, within that general context.

**Mr. Rock:** Could I have your opinion on this matter of Northern Electric employees

not having the same right as Bell employees and yet they work indirectly for the same Company.

**Mr. Zimmerman:** Might I say that I think that there is a logical extension of the plan from a parent to its 100 per-cent-owned subsidiary. I do not want to be in the position of putting my blessing on the employees' stock purchase plan of Bell because I am not all that familiar with it. I do not know what it provides, how active it is, or anything else. However, as I understand your comment, I agree with the concept. They are all part of the same operation. If it was one of my subsidiary companies, Local Industries, we would give them the same encouragement and support to buy Industrial, the parent shares, because they cannot buy their own Company shares and they are 100 per cent part of our package. Within that frame of reference, yes, I think it is desirable.

**Mr. Torrance:** And the Toronto Stock Exchange recognizes this. They will allow companies with a stock option plan to make that plan available to employees of the subsidiaries.

**Mr. Rock:** That is fine. Even if Bell Telephone owns shares in other telephone companies, which they do, which are not named Bell, do you feel that these employees should also have the same rights to buy shares within Bell.

**Mr. Zimmerman:** Let me cast up an example. I think maybe Northern Telephone might fall into that context. Let us assume that Northern Telephone shares are available on the market, then I think the philosophy of the plan should apply with the companies that they are involved in if the opportunity rests there. This brings their interest closer to their own point of involvement in the activity. If there was a minority interest, for example, in Northern Telephone and a plan was evolved that only permitted purchase of Bell's shares what we are doing is having a minority shareholder, Bell, encouraging shareholders to invest in its shares and the employees are not directly connected to their own enterprise. So I think we get fairly involved. However, I do subscribe to the general philosophy that you are outlining of employees in public companies being helped and encouraged to invest in their own under-



takings with the proviso that management is not cast or allowed to operate in the role of a "pusher".

**Mr. Howe (Wellington-Huron):** Mr. Chairman, when Mr. Zimmerman was replying to Mr. Stafford a few minutes ago he gave the percentage of business held by yourself in this wire and cable field. What percentage of this do you hold and have in Canada?

**Mr. Zimmerman:** Approximately 5 per cent.

**Mr. Howe (Wellington-Huron):** And Canada Wire and Cable?

**Mr. Zimmerman:** This was a very "iffy" one because there are no statistics available to me either on the wire and cable sales of Northern or of Canada Wire. I do have historical figures on what the total wire and cable business is in Canada from DBS. I think it is felt that Canada Wire and Northern probably is in the 30 per cent range and I probably would put Northern marginally larger than Canada Wire but these are just "Guesstimates" on my part.

**Mr. Howe (Wellington-Huron):** And Phillips Cables, approximately 20 per cent?

**Mr. Zimmerman:** Yes, they do publish their figures. I would put them 18 to 20 per cent of the total.

**Mr. Howe (Wellington-Huron):** In other words, Mr. Zimmerman, Northern Electric is a competitor to all of these people.

**Mr. Zimmerman:** That is right.

**Mr. Howe (Wellington-Huron):** Mr. Chairman, have we had briefs from any other wire and cable company in connection with this Bill?

**The Chairman:** No.

• (11:40 a.m.)

**Mr. Howe (Wellington-Huron):** This is something that is rather hard to understand. Bell Telephone and Northern Electric are getting into the monopolistic field, I will say. You control 5 per cent of the business in Canada, why is it that they are not afraid of Bell Telephone and Northern Electric?

**Mr. Zimmerman:** Let me speak to you very frankly on that subject. I do not know that

"afraid" is the right word—and I think they should be asked to appear if they have not—they have expressed continuing concern about what we all in the industry feel is unfair competition. But these sort of constraints prevail: nobody sort of manufactures entirely for himself; there are thousands of products so there is an exchange of who does what. There is also, underlying several of these companies, a basic raw materials position. We all use copper, we all use aluminum, and so does Northern Electric and they are a big purchaser of these. They can put their business for aluminum, rubber or copper, in several choices. So, unless there is a concerted and total presentation, the one who speaks up has suddenly become less than a favoured supplier; and these are multimillion dollar purchases. So, I suggest to you that there are some very meaningful constraints on taking an initiative in this area.

**Mr. Howe (Wellington-Huron):** In other words, you are going after the big bad wolf and nobody else is?

**Mr. Zimmerman:** Well, at least we are vocal about our objections.

**Mr. Howe (Wellington-Huron):** On page 17 you make the statement about loss leaders in connection with large tenders. Of course, we know that in business today the loss leader is being used by all people in business in one way or another to promote business and to gain custom. But if this loss leader in your area is so bad, is there not a stipulation in the legal code providing that if you can prove another company is using loss leaders to the detriment of your business you can lay a charge, or have a charge laid against this company to bring an objection to it? Have you ever done this?

**Mr. Zimmerman:** The answer to that is, yes. This preceded our taking the alternate route of the Transport Board. The various sections of the Combines Investigation Act were looked at very carefully by our counsel. In their opinion there were certain operative and, in the main, in-operative provisions. The Act is set up for the protection of the general public. We felt—and I am speaking now on the advice that I received—that the charges and the use of this Act depend more in the short term. In other words, the price fixing, the price setting, aspects of this Act had been used very effectively. However, no action

during the whole existence of this legislation has ever been taken under what you allude to as predatory pricing. Only two actions in the whole history of that legislation, according to my information, have ever been taken on misuse of monopolistic powers. Another one, in theory at least, that might be a weapon to our hand.

Then there is the other rather earthy fact that combines legislation is viewed in the business community—and I prescribe to this—as maybe having been interpreted in the courts out of the context of “in the public interest.” It is not, and never has been, whether prices have been set and that the public interest has been affected; it is whether they have been set, and if they are set then that is on what the conviction lies.

So, it was a calculated move on our part. Applying under that section of the Act would have been a first; we had no precedents to go by, no yardsticks to decide whether predatory pricing fitted into this; it had not been through the courts; we had seen that what you read in the Act and how the courts had interpreted it were somewhat wide of the literal meaning of the word.

So, for that reason we decided that our best route was to go to the Transport Board and stress the regulatory restraints that were on Bell. Because it was, in our view, loss leader pricing, we pointed to the obvious, that in the arithmetic of Bell's application for additional capital they had the possibility, whether they used it or not, of maintaining prices below their costs indefinitely and get the loss here offset by a telephone rate. There was no accounting discipline, there was no public examination of the various aspects of their business that would prevent that happening, and this is where we led in.

One of the backgrounds was to prevent this sort of thing in the States. This is a sort of spreadsheet out of Western Electric's, and I will not bore you with all the detail, other than to say that Western Electric reports under something like 30 categories of its manufacture and under each category shows the gross profit, the basic profit, the cost of sales, the variations of standards, development and special engineering costs, merchandising costs, state taxes, and they do a total breakdown under 30 categories of products and come up with the per cent return on

investment. In short, they show to the regulatory body that all elements of their manufacture are being done in the interest of their common carrier business, and they are not loss leadering either a service or a product. This is what is made public and these are available.

We made this recommendation to the Board when they were looking at the rates, but in their judgment they did not accept that discipline. It lies within the power of the regulatory legislation to demand that these types of records be provided. This type of regulation could be carried on under the existing legislation, but it has not been. This is where we felt the input from industry and, as we read the record, no company competing with Northern or Bell had come in and objected previously and we felt that this would be listened to sympathetically. We were disabused of that idea over the years, so we are back here.

**Mr. Howe (Wellington-Huron):** In other words, you were not allowed to get the information that you wanted to prove that they were using loss leaders?

**Mr. Zimmerman:** No; we could not extract this information from them through any of the existing agencies; we could only start an action, which we did, to try to have it introduced in evidence.

**Mr. Howe (Wellington-Huron):** In other words, you say that they use loss leaders but you could not actually prove it?

**Mr. Zimmerman:** Well, we could cite examples which I presume we still have in our records of specific sale situations on various tenders called in the country for well established products, and at the price of the particular product analysed by published figures of raw materials inherent in being published, satisfy our independent auditing people that these were below their manufacturing costs.

The validity of this judgment is that wire operations have so much in common in terms of the equipment they use that if you give a specific product and you identify it, and it is a relatively earthy one like bare aluminum wire, there is not much discretion in terms of allocation of overheads and the arbitrary things. They are fixed costs. So, if you have a



selling price you can ballpark very quickly what the fixed costs are on these types of products.

**Mr. Howe (Wellington-Huron):** How far below your figures would they come? Would they be 10 per cent below?

**Mr. Zimmerman:** Yes, I would say it was in that order of magnitude.

**Mr. Howe (Wellington-Huron):** Would this be a first for them, a first time into this market, or do they do this every time they tender?

**Mr. Zimmerman:** Well, let me just back up. You see, the wire and cable industry had operated under what was maintained in court as a very tight combine. Northern was charged for a situation, I believe, in Saskatchewan; now this pre-dates my involvement in the industry. One of the most onerous judgments for price fixing was levelled on Northern and associated companies. As a result, all communications within the industry ceased, because not only were the companies convicted but the individuals in the industry were put under a contempt of court citation. The normal give and take and exchange in a commercial environment apparently ceased and very quickly. If somebody comes out with a published price list on earthy products, because there is actually no engineering difference between these products, the prices just seemed to be going down, down, down; and that Northern was the leader in this decline was fairly evident. They had no profit and loss discipline ultimately to stop the decline because they could sell for 10 years at prices below cost, and recoup on their telephone business.

• (11:50 a.m.)

I am now talking about 1961 and 1962. There were no published data; Northern did not put out annual reports; all their inter-company transactions were behind this screen. We had their coming for rates, but no examination of their costs and internal efficiencies. So my analysis of the situation was that I had one competitor who, unlike myself, had no profit and loss discipline exercised on him, and it was on that issue that I decided that we should go to the public and air our complaint. It apparently was heard in

the right quarters, and Northern's competition has been, as I say, amongst the best since this initial complaint was laid on that point.

**Mr. Howe (Wellington-Huron):** Mr. Zimmerman, do you never use loss leaders in any of your business?

**Mr. Zimmerman:** Yes, we use loss leaders.

**Mr. Howe (Wellington-Huron):** It just depends on who is asked.

**Mr. Zimmerman:** Oh, no, but it depends on the purpose of the loss leading, and the one that the legislation it deals with, and the one that concerned me was the elimination of competition. It was not the give and take of getting this order and that one. That is one type of loss leader. Predatory pricing is what we complained of, and that is what I was satisfied was going on and there was no remedy in economics. The only remedy could come through regulation.

**Mr. Howe (Wellington-Huron):** Your definition of loss leaders may not agree with mine; they are always to get new business, or to meet your competitor or beat your competitor in the market-place; this is common practice in all business.

There is another question that arises in my mind. On page 17 of your brief in connection with research and the standards that are set up by Bell, it says:...

...they are unquestionably biased towards Bell designs and manufacturing techniques and are not necessarily the last word in engineering excellence in every instance.

This brings us to the whole question of research in telecommunications. It has become very expensive, has it not?

**Mr. Zimmerman:** It has.

**Mr. Howe (Wellington-Huron):** In the satellite communication area, do you do any research?

**Mr. Zimmerman:** No, we do not.

**Mr. Howe (Wellington-Huron):** Who does it these days?

**Mr. Zimmerman:** You recognize at once, I am sure, that you are outside my particular



field of competence, but from what I read in the papers certainly people like RCA and Marconi, presumably GE, Westinghouse—the large companies.

**Mr. Howe (Wellington-Huron):** And it takes a lot of reserve to get into any research, even telephone research or telecommunications or by cable. There is one other question here that you speak about which has to do with this company again, and that is with regard to Bell's tactics in keeping rural telephone rates of independent telephone companies depressed to the point where the independents have difficulty in making a fair return. Most of these independents are co-operatives, are they not?

**Mr. Zimmerman:** Well, again, we put it in an appendix, and we were quoting from published editorial material in the telephone journal.

**Mr. Howe (Wellington-Huron):** Yes, I read that too, but there are no definite instances given. No examples.

**Mr. Zimmerman:** No, but I think the pattern over the years has been to raise the rates in terms of urban concentration, say like Toronto, and the rates out in the country are down. Now, there are two sides to this argument. From an engineering point of view the more concentration of like things you have in an area, the more efficient the system, and you would expect the cost to go down. Bell's answer to it is, "Oh, but you can call more people".

Now competent engineers without the rate structure problem sitting on them say that there is an exact economic 180 degree reversal in what should be done and what is done. In other words, the rates in cities, regardless of how many people you can call, because of the loading and the efficiency of a concentrated area should be lower, and the rurals should be higher, but you do not see that. Not only is it in Canada, but that concept has been argued, admittedly up to this point, ineffectively. I am simply giving opinions of others who do not have the rate arguments to sway their judgment; technical people tell me that the city rates being high and the country rates being low are not a logical interpretation of the economics of the situation.

**Mr. Rock:** May I ask a supplementary on that which could be very important?

**The Chairman:** All right.

**Mr. Rock:** You mention the low rate in the rural areas. While you say that did you consider that they have so many more long distance calls to make that their bill at the end of the month actually is a lot higher than that of a person living, say, in Toronto or Montreal? All that person has to do is dial anyone, but for the same distance which he can reach the rural subscriber may have to pay \$7 to \$10 and perhaps \$15 to \$20 in long distance calls. Therefore, in the rural area possibly their total bill is much higher than that of someone in a suburban area.

**Mr. Zimmerman:** Well, Mr. Rock, again really I must almost disqualify myself other than to allude to reference material which we provided. In this area of rates—and I think your use of the rural man on long distance is very pertinent—we are looking at the base charge for service. As I have listened to and read the rate hearings, two things have struck me as being inconsistent: on the one hand when we are talking long distance rates they are high because the points are far apart; on the other hand when we are talking about city rates, they are high because, "Oh, you can call more people within your area".

**Mr. Rock:** The point is that in the circle of the rural area the mileage is perhaps even less than that of the metropolitan area, and yet this all becomes long distance. I am just thinking of where I have my country home, which is only 10 miles from Cornwall, but because I have to phone Cornwall quite often, the expense of long distance is a lot higher in my total bill in comparison with the service I get in Montreal. It is really a bargain in the metropolitan area, even if the rate is higher, compared with the cheap rate I have for the telephone for which I can only phone into a small town.

**Mr. Zimmerman:** I share the rural experience with you, since we have a rural home too, and I am aware of the long distance rates. I do not in any way want to just raise red herrings or pose as an expert. I just say that competent people in the equipment field question—and have for years—the Bell, AT&T and General Telephone. Where you have multiple inputs per mile in the city, high density concentration throughout the whole of the network, the fact that we have the

rate structure we do is not unique to Canada. When you turn around and look at whatever there is where the low density in the country, you have the low subscriber rate.

That arose simply out of the editorial material that was here, and I am just not competent to analyse it for you any more fully, and this probably is not the forum to do it in. But it is not a uniformly accepted principle that the rate structures between city and country are based on engineering and economically solid foundations, and this article said that it was for acquisition purposes.

**Mr. Howe (Wellington-Huron):** In other words, Mr. Zimmerman, you are intimating that they are using the loss leaders in rural areas.

**Mr. Zimmerman:** Exactly.

**Mr. Howe (Wellington-Huron):** I do not believe this, sir. A lot of the rural telephone companies are co-operatives. They are run by a group of local people who are trying to provide the cheapest telephone service they can. They run into difficulty because they have not looked after keeping the lines up, and they have had to call in The Bell to take over in quite a few instances because they did not have reserves to keep up to date. But I do not think that The Bell has depressed the prices in those areas, because The Bell is not actually in competition with those people.

• (12:00 noon)

**Mr. Zimmerman:** Well, I do not subscribe to your closing statement. I think that Bell's interests are to grow and grow and grow. That is, at least in my view, their middle name. I was not comparing—at least did not mean to—Bell's city rates with somebody else's rural rate. I am comparing Bell's rural rates with Bell's city rates and not limiting it to Bell of Canada. I think it is almost as broad in the Bell system in the United States as in Canada.

**Mr. Howe (Wellington-Huron):** Of course, Mr. Zimmerman, this is carried forward into our Department of Education. In the rural areas, particularly in the Province of Ontario, the percentage of the cost of education that the Ontario government bears is larger than in the urban areas just because they

feel that the distances and the transportation problem are greater.

Therefore, as I say, I do not altogether subscribe to the view that there is this monopolistic overbearance by the Bell Telephone in all these areas. I just do not follow that through.

Furthermore, do you know of any instances where they have depressed a rural company until it has gone out of business, and immediately that happened the rates have gone up?

**Mr. Zimmerman:** In our own area—and this goes back three years—Bolton Telephone Company was taken over by Bell Telephone and the rates went away up. I must be quick to add, however, that so did the service.

**Mr. Howe (Wellington-Huron):** They were giving a better service. The reason for your low rates was that the rural people did not realize the importance of setting up reserves to keep their equipment in shape and to service it properly. Therefore, they were able to give lower rates.

**Mr. Zimmerman:** Well, I think your point is well made. I question only on what I have read in technical trade journals, from people involved with these matters, the editors of which saw fit to raise this point and, I have heard some peripheral discussion. As I say, I am not involved, and it is not at all part of our main thrust in these hearings, but somebody seemed to have an obligation to touch on the totality of Bell's operations, because of their asking, in effect, to be the chosen instrument of telecommunications. In my opinion, all these matters should be examined carefully by your Committee, and it was within that area that we raised the issue.

**Mr. Howe (Wellington-Huron):** In the same connection, Mr. Zimmerman, in both of these instances that have been mentioned, about tendering with lost leaders and this rural telephone business, are you inferring that they are using improper business practices, or...

**Mr. Zimmerman:** I am not inferring it on the rural business. I am certainly stating that it was my opinion that they were employing pricing with the intent of eliminating a competitor. That was the reason for our getting off the ground on this issue.



**Mr. Howe (Wellington-Huron):** It would have been more to the point if, in both cases, you had given us definite instances of where this had been done.

**Mr. Zimmerman:** I can and will furnish you with the specific instances in 1960, 1961 and 1962 of which we have first hand knowledge. The others, I think, at least for our purposes are adequately documented by the inclusion of the editorial material.

I am sure you recognize, Mr. Howe, that we cannot become the sort of public prosecutor of the Bell Telephone Company. That is not our role in life, even though at times it may seem to them that we are. However, somebody has got at least to speak about your vital interests, and we have done our best to raise all the areas that seemed of importance to this Committee. We can deal in depth with those with which we are involved. I think that municipal taxes and telephone rates and so on are out with the scope of our involvement. There are people involved in these matters who can be called to speak to you about them.

**Mr. Howe (Wellington-Huron):** Thank you, Mr. Chairman.

**Mr. Sherman:** Mr. Zimmerman, in your very intriguing brief you make the point that in your company's view Bell does not need a separate company for research. This is a statement and an attitude with which, in balance, I must say I completely agree. However, what is your reason for saying this? Is it because you believe that foreign research will always be available to Bell, or that, within their own corporate structure here in Canada, they could have a research division and would never have to worry about the acceptability of foreign research?

**Mr. Zimmerman:** I think, to a small degree, it is what you suggest, that foreign research is available to them. However, the prime reason for our sort of knocking this private company concept goes back to the regulation of Bell. Within their own company they can have all the manufacturing and research and service facilities which they require to fill the role; and to the degree that they can encapsulate and segregate operations in other companies they escape regulation.

The research and development aspects of Bell Northern constitute, I think, one of the

most important problems facing this Committee. Canada has unique problems in telecommunication techniques and highways. I am the strongest proponent of having facilities in Ottawa and of the things Bell are doing being augmented. I am also very much of a mind that if this research and development is not made available to the general public on fair and equitable terms, as it is in the States—because, after all, it is the telephone subscriber who has funded this—then we are denying the private sector in Canada the right to use this pattern and know-how. Bell is there as the user of this entire, publicly-sourced know-how.

If it is done within Bell and Bell is regulated then these things can be looked at by a dispassionate protector of the public interest. In the main, it is on that basis that I question all the segregation into separate corporate shells?

**The Chairman:** That enunciation of your point of view is not contained in the brief, and I think it is valuable to have it on the record.

Would you, Mr. Zimmerman, go so far as to say that it is your view, if not that of your Company, that Bell Telephone is actually violating section 194 of the Canada Corporations Act by its ownership of shares in Northern?

**An hon. Member:** Who does not?

**The Chairman:** I notice that you made an appeal to both the Supreme Court of Canada and subsequently to the Cabinet about their ownership of Northern Shares. The appeal was an abortive one, or has been up to this point.

**Mr. Torrance:** You have to have leave to appeal to the Supreme Court, and you may appeal to the Supreme Court and to the Transport Board only on a question of law—and strictly law; not law and fact.

**The Chairman:** What will happen, Mr. Torrance, if you should fail to convince a majority of the Committee that you have a case here, and that the Bell application should be modified accordingly? If you fail in that exercise is there another avenue of appeal open to you, and, if so, are you going to pursue it?



**Mr. Torrance:** That would be in the realm of speculation at this stage. I do not know what we would do, if anything.

I do want to emphasize the importance of legislation in the field, though. The problem here that may be engaging the attention of everybody is what will happen if Bell is allowed to continue its ownership of Northern Electric. Everyone should be clear that there is no restriction at all on the subsidiaries which Northern Electric can have. Indeed, Northern Electric, at the moment, has three subsidiary companies that we are aware of. Now, those subsidiary companies could each have a hundred subsidiary companies, so that we already have in the net a hole through which one very large fish has escaped. There is the dangerous situation, in a sense, and it could be argued, that Bell could then carry on, through Northern and its subsidiaries and their subsidiaries, and do virtually anything at his moment. This is what makes this legislation so important. We believe that there is a scheme of legislation which is very clear. Bell was given telephone powers; Bell was given all powers, as needed, to run the telephone business, including the power to go down public streets. They were restricted from investing in companies other than telephone companies. They were put under the obligation of providing telephone services. Their telephone rates are regulated; their share issues are regulated; and they are allowed to raise money only for the purposes and objects of the Company. We say that if they are allowed to escape from this there are so many ramifications of this business that we think they would be uncontrolled. We think this is the problem. It is a serious problem. We think that the very existence at the moment of Northern Electric is a breach of the spirit, if not the letter—and, we think of both. For example, one of Northern Electric's subsidiaries, which I am not sure is active now—we did the research some years ago, when it was Dominion Sound Equipment Limited—was at one particular time providing acoustical materials for theatres. Now that and the telephone business are miles apart. They can have a Dominion anything tomorrow. There is nothing to prevent them that I can see, from the legal point of view, this reintroduces the emphasis of the legislation on the whole scheme. Bell was surely never

intended to be allowed to engage in activities completely unrelated to the telephone business. Yet, because of Northern, it is, in my submission, possible legally.

• (12:10 p.m.)

**Mr. Sherman:** Your basic objection to the Bell application for increased capitalization is on the ground that this increased capitalization is deemed necessary by Bell in order that they can get into these peripheral, para-industrial operations?

**Mr. Torrance:** I do not think that we have any objection, as such, to Bell's getting the authority to raise additional capital, but there is more than one stage involved. What they have asked for in the Bill is the authority to increase their authorized capital, but what we do object to is the elimination of the jurisdiction of the Transport Board over the approval of share issues. All they are asking Parliament for is the right to raise money. Then, however, they go on to ask that the Transport Board's approval be eliminated. We think it is important that that approval remain. They are supposed to go to the Board and say; "We have had to put into service X million more telephones, therefore we need Y million more dollars." The Transport Board, in our submission, should direct its enquiry towards the purposes to which it has put its money and to the purposes to which it intends to put its money. On that basis it would make sense to give them the authority to go and raise the money.

**Mr. Sherman:** Do you have any objection, sir, to Bell's application to issue preferred stock?

**Mr. Torrance:** That is really a technical financial matter. We honestly believe that Bell should be able to raise money in whatever way makes sense, as a corporate matter, to Bell and we do not think that there should be any impediment to their ability to do that, provided they satisfy the Commission that the money they make will be used for a proper purpose. That is our point. It is not the amount of money, or the way in which they raise it.

**Mr. Smith:** Additionally, we think it is significant that the request for this additional, very large amount of capital is made in the same legislation in which they are asking for an increase of powers in the type of companies that they can buy.

**Mr. Sherman:** I am interested and intrigued by your David and Goliath role in this exercise, Mr. Zimmerman. Mr. Howe opened up an interesting line of questioning that I would like to pursue just for a moment, although he has pretty well covered the ground.

Do you feel that if you had a relatively larger share of the wire and cable market in Canada than you have now it would be more difficult for you to take the position that you have taken in juxtaposition to Bell's application? In other words, sir, are you sort of chosen spear-carriers in this battle because you have nothing to lose?

**Mr. Zimmerman:** No. We had something to lose—many hundreds of thousands of dollars worth of Northern's business—and we have lost it.

I would just open with the statement that we are masters of our own policy. We have had offers of all sorts of material support, which we have declined with thanks. We want to paddle our own canoe and speak from our own position without having words put in our mouths.

Having said that, though, I am in this industry. I am very involved in it; and I know the people in it. I feel that I am competent to hear what they say and understand something of their position. As I stated previously, in my view a hundred per cent of the major electrical industries question where Bell is headed. A smaller percentage who are perhaps not hurt to the same extent, or who have a favoured position as a supplier, are not so concerned about where they are today.

**Mr. Sherman:** Has the industry discussed trade seminars and industrial seminars? Have you and your competitors in this field, excluding Northern Electric—or perhaps even including them—discussed this danger?

**Mr. Zimmerman:** No; not in that context, or in that arena. We are members of most of the trade associations of which Northern is a member relative to our product line, and at this level we are discussing things of interest to the industry generally—the GATT negotiations, labour rates, and so on. At a working level there is not a great bunch of guys than those at Northern but these discussions are on major trade interests.

We do not use that arena—for, I think, obvious reasons—to single out specific points of confrontation with Northern or anyone else. This is part of the accepted discipline of maintaining a common interest and working cohesively on common problems. However, outside of that, in a less formal way the emerging policies and tactics of the Bell are luncheon topics every day of the week. I think your interest and your question may relate to what extent this David-and-Goliath activity is self-motivated. We support, work at and develop our own research. We are always eager to get leads, to know which rock should we lift—that sort of thing—and we are provided with that; but this has been a form of what might be called anything—PR., advertising, budget—and it is a fight for economic survival and development.

**Mr. Sherman:** Well, just so that there is no misunderstanding, that was not the motive behind my questioning.

**Mr. Zimmerman:** Oh, I thought it was.

**Mr. Sherman:** My motive is to satisfy myself that you have a legitimate case—which I believe you have—and that you have the moral support of even your competitors in the industry.

I would like to know whether you feel that you can say before this Committee that you do not really think you are acting alone in this. You may, in terms of the obvious exercise, be acting alone because other companies have interests that militate against their acting at this time, but do you feel confident that Industrial Wire and Cable in this situation does not constitute a trouble-maker, or an industry-disturber of some kind, but represents a valid, legitimate point of view on a valid, legitimate anxiety that troubles a fairly large sector of the industry?

**Mr. Zimmerman:** I can substantiate what you say. To the best of my knowledge if you were to call the presidents of the other wire and cable and electrical companies you would find that in their own way this concern is their concern. It might serve the purpose of this Committee to issue such invitations to the larger people and hear it for yourself. Certainly, as shown in the consumer prices hearing, industry is not as a rule a willing and eager witness; it is somewhat



reluctant to have its commercial problems aired in this type of a forum. In our own case, as I say, we thought we were in sort of a "gut" fight, and certainly any view of this present legislation is that although it is not putting us out of business—because I do not know that the Bell and Northern combination has done that to anybody—it limits very dramatically and drastically the areas, in an expanding telecommunications field, in which we, as a private sector, can become involved and build a more viable and broader base. It is a form of competition to which we have no answer.

**Mr. Sherman:** I thank you very sincerely for your direct answers, Mr. Zimmerman and I take this opportunity, if I may Mr. Chairman, to commend you on your brief. I found it most intriguing. It raised a number of questions that can only be answered to my satisfaction by having a representative of the Bell before this Committee again, and I assume such arrangements are being made.

• (12:20 p.m.)

**Mr. Southam:** Mr. Chairman, most of the questions that have been bothering me have been well put and very effectively answered by the witness but I would like to ask this question.

Mr. Zimmerman, in presenting your problem to the Committee regarding the relationship of your industry and similar industries with Northern Electric and Bell you referred in your brief to situations in the United States. In preparing the research for your brief in how many areas were you able to do research that experienced problems similar to those in the United States? The reason for my bringing this up is that we are a young country compared to the United States. The United States have pioneered in legislation that in some cases we as legislatures have copied. Could you give us some help in this respect to help our Committee make a final decision in this matter? How much research have you done, on a comparative basis, in the U.S.A. or possibly England?

**Mr. Zimmerman:** In the English situation, none because I did not feel that their post office arrangement, of which the telephone industry is part, was really a good analogy in our situation. In the United States there were two occasions on which it seemed useful to

do research, the first of which was before we appeared at the rate hearings a year or so ago. At that time we found the FCC and the various state regulatory boards most helpful in providing printed material, minutes of proceedings and documents that they were using in their jurisdiction. We brought in an expert witness to act on our brief and help with the presentation. We had the benefit of his 20 years of experience. He spent the best part of a week with us and this led to other communications. More recently, in preparation for this, we had gone back and looked at a comparison between our Transport Board and other regulatory bodies from a staff point of view, from the form of reporting and the type of legislation under which they are operating. What is more, almost without exception the boards in Washington and all the states have responded most co-operatively. So in balance, it has been writing for and getting material to read and not really using our counterpart. We have not been in heavy meaningful discussions with U.S. companies operating in these areas because that did not seem to us to be the best way to develop our case. There is no question about it, the United States is in a more developed state, but I think it would be interesting to know that the substance of what you are now faced with and what we are recommending has been in effect for 25 years in the United States and I, as one Canadian, do not think we are 25 years behind them.

**Mr. Southam:** I am not suggesting we are that far behind but I do feel, and I base this comment on what you said a little while ago which I was very interested in, in our present Canadian Transportation Commission that we have not a committee to deal specifically with telecommunications. I think this is an area where we possibly slipped. I think if we did have a committee that was specifically responsible for this problem, with experts on it, you people would be in a better position to get a decision on this problem and we, as a committee, would be in a better position too. I think this is one of the areas in which we have to pull our socks up.

**Mr. Zimmerman:** As an adjunct to my previous answer, I would like to point out that in the United States we are faced with almost an identical situation, the large dominant service company AT & T, with its wholly-owned subsidiaries having a wholly-



owned manufacturing arm. Now as you look around the circumference of the globe this is unique to Canada and the United States, and it is on this point that I think our real regulatory problems rest. They are in a position to expand service and expand manufacturing outside their assigned areas unless regulation is effective, and it makes effective regulations difficult. The degree of expertise available to the U.S. boards, even the smallest state board, makes our Canadian counterpart look most inadequate by comparison.

**Mr. Southam:** In the couple of cases where you did research in areas you felt were a counterpart of your problem here in Canada the FCC made decisions along the lines that you are advocating that we should make.

**Mr. Zimmerman:** That is right. In general the role of AT & T and its operating telephone companies have been clearly defined as that of a telecommunications common carrier. As such, inputs and outputs in general are restricted to telephones; the rates at which they will lease lines or install CATV networks are adjudicated and overseen by these regulatory boards, and the operating telephone companies must take all comers on equal terms. They then look at the manufacturing element and see that each product line is, in substance, supporting the telecommunications common carrier business, that to the extent they are in other businesses, the government or whatever it is, that this is not a loss leader, and that the services and rates they are offering to other service companies are fair and equitable considering the cost of plants, maintenance and the other elements. I think our problem in Canada is, firstly, to decide what the Bell Telephone Company's chosen role is and then to see that regulation is effective to carry that out because we have seen in the United States what effective regulation can accomplish. I will cite a case that has been well publicized in California where the rate of return on the Bell Company there was established as a matter of record. The board there adopted the philosophy that what was approved for the Bell Company should apply to Western manufacturing arm as well, and with power available to it to adjust the rate base it made a reduction in rates effective that comprised the major part of a 45 cents per month reduction

in the telephone bills. This was about three years ago. There are other actions pending where, if the allowable rate that the Bell Company makes is exceeded, they are compelled to pay back to the users the extent to which they have overearned. I think it is a matter of common record that in Canada generally Bell has had an earnings per share and, more recently, a per cent return on investment. The Board of Transport Commissioners, in my view, has the power, when they exceed it, to make rate reductions effective. I do not recall it ever happening but I think it should happen. I believe it takes a type of technical and individual breakdown report, seen by a very effective board, well staffed to support it, to bring effective regulation on a complex of this size.

**Mr. Southam:** Thank you, Mr. Chairman.

**Mr. Émard:** Mr. Chairman, I could not help but smile when I heard the representatives of Industrial Wire and Cable mention combines before. If my recollection is correct, in 1952 or 1953 there was a combines investigation held by Carl Goldenberg on price-fixing in the wire and cable industry. At that time Industrial Wire and Cable, along with nine other companies including Northern Electric, I think were found guilty. That is not my question but I wanted to interject that remark.

• (12:30 p.m.)

You mentioned that Bell should be restricted to common carrier service. There is a trend today in large industry to diversified production. For instance, some breweries have bought furniture companies. IBM is going into the educational field. I know of a big aluminum company that bought another company completely outside their field. I cannot recall the name of the company. Even those companies which are regulated by government do the same. I would like to quote an ad I saw a month or two ago in *Montreal 1967* relating to the CNR. The following are some of the things they mention:

To millions of people, CN is passenger trains...

To the country as a whole, Canadian National is freight transportation—The Company also has United States lines which operate in 11 states.

To people in remote outposts of the North, CN is *their communication link* with each other and the outside world through the telephone facilities of CN Telecommunications. CNT, together with CP Telecommunications, provides coast-to-coast microwave transmission facilities and a host of modern communication services for business and industry.

To people of the Atlantic coast—CN is *marine services*.

CN is also *trucking—piggyback and containers that shift easily from train to truck or to ship play their role in this part of the business*.

CN is *hotels, too*.

Canadian National is a big landowner and has been in the forefront of urban development in Canadian cities—CN's central Station terminal has been developed into an exciting new city centre—Place Ville-Marie and Place Bonaventure.

If many companies do that, why should Bell be placed in a minority position and restricted to the role of common carrier?

**Mr. Zimmerman:** Mr. Émard, if I might take the liberty of answering with a small preamble to your preamble, the industrial wire company that was involved in the combines case is not the one before you today nor are the people sitting here before you today. In that respect we will just stand to one side.

I think the very direct answer to this question is the special nature of the Bell Telephone Company, which is truly placed in a monopolistic position, and I would like to once again draw the line of difference between railways and other companies that are not manufacturing but offering a service. These services have a common thread and jurisdiction and legislation has recognized them as transportation companies and legislation has evolved whereby they not only have special privileges, they also have special obligations. We are saying that Bell has usurped special privileges without having any balancing obligations to the general public. We are again appearing before this Committee to ask that the creature of Parliament be regulated within Parliament's guidelines. I

think it has consistently escaped those guidelines.

**Mr. Émard:** I would like to revert to French because there are some words I do not know in English.

(Translation)

I would like to know the reasons why you seem to be so dead set against Northern Electric?

Your company has already asked that the amalgamation of Northern by Bell be declared illegal on three occasions: in 1963 before the Board of Transport Commissioners, in 1964 before the Supreme Court, in 1965, before the Federal Cabinet.

I might understand if your company were in financial difficulties because of Northern Electric's competition. But by your own admission in your brief, you say:

(English)

... the company has shown dynamic growth over the past five years.

(Translation)

Mr. Deachman, precisely this morning quoted some figures which prove what has been stated here.

(English)

**Mr. Zimmerman:** I really think the answer is contained in our brief. We have no apologies to make for our success but in my view this does not remove the inequalities and unfairness implicit in the Bell situation, which has a large and absolutely protected market and a manufacturing arm that operates under this shield in direct competition with the private sector. This does not relate to my company alone. I think you must recognize that we are simply one of a community of companies. They all feel the impact of the Bell—Northern situation. If this is recognized and the various pros and cons are weighed and that is Parliament's decision, that is fine, we can operate in that climate. However, I believe our real mission here is to point out that to the extent this service aspect—which is a very desirable one, one that is absolutely vital to our economy and social structure—is permitted to manufacture, sell and develop special interests outside the requirements of the public need that two things are in jeopardy. One,

the efficiency of the basic service itself because I submit that Bell can do many things well but not all and it again puts an unfair element on the development of the private sector of the Canadian economy. It may be straining it a bit to state that you are making a choice whether all our export is to be funnelled out through Northern, but in concept this is the type of balance this legislation is requesting Parliament to give.

(Translation)

**Mr. Émard:** In your brief, you mentioned the name of the giants of the communications industry, RCA Victor, General Electric, IBM and certain American firms which might be some competitors to Bell Telephone in the field of communications.

As I know, on the other hand, that these firms have considerable income and tremendous possibilities on the international market, for instance, IBM, which has 3½ billion dollars worth of business per year, should we restrict the growth of Bell in view of this competition on the international market?

(English)

**Mr. Zimmerman:** I do not think that is really our position. I think if you cast up other giants, which I believe should be dealt with in a trust capacity, it is—excuse me—muddying the waters in relation to the guidelines for Bell Telephone and Northern within our economy. If there is something inequitable in the domination of IBM or others in a given field, then I think there is a separate remedial legislation indicated. Our submission is that we thought Bell was defined as a telephone company. It is now asking for redefinition. We state quite frankly that up until now it has never been regulated and if it is to be redefined we are asking that it also be effectively regulated. I do not subscribe to the belief that it should not be supported for its role in export and in its area of expertise, I think this should be strengthened, but it should not be allowed to drift off into peripheral areas in which they have not demonstrated. Even if they had, they would be prejudicing the independent entrepreneur's opportunities within our Canadian economy.

(Translation)

**Mr. Émard:** Is not The Bell Telephone Company about the only Canadian firm

which can compete with American firms or their subsidiaries?

(English)

**Mr. Zimmerman:** No, far from it. I think it competes very effectively in its telephone aspects. This is an important feature in the total picture of Canadian export activities but it is by no means a dominant one. In other areas of its manufacturing activities, take wire and cable, it is my view—and I think you could best question the other big people in the field—that we are a better exporter of our particular product lines than Northern. We are differentiating on product. I think that Pirelli Cables Ltd. and Phillips Cables Ltd. and Canada Wire are much more effective exporters of their product lines than Northern Electric. You can make a very strong case, and it has been made by Bell-Northern, for their total communications link where crossbar and the other things in the telephone industry puts them in the forefront of world manufacturers. I take nothing away from them. I think we are making our mistake in spreading that mantle of success over these other peripheral matters where private sector companies have been and will be a much more effective export tool.

• (12:40 p.m.)

(Translation)

**Mr. Émard:** Are not the Phillips Cables and Canada Wire, companies subsidiaries of American firms?

(English)

**Mr. Zimmerman:** No, not in either case. Phillips is a subsidiary of a British firm and Canada Wire is wholly owned by Noranda, a Canadian company. But again, just to come back, is the purpose of this exercise to get secondary manufacturing job opportunities, the utilization of our natural resources most efficiently and effectively to maintain a high standard of industrial activity, or is it to make a choice to have a favourite instrument? I suggest to you it would be most unwise to emphasize Bell-Northern's capabilities of being the broad electrical exporter of Canadian industries. This does not meet the facts.

(Translation)

**Mr. Émard:** I agree with you when you say that we should maintain a reasonably high



standard of living and good working conditions for the employees. However, in my opinion, we in Canada should, make an effort to dominate our own industries; we ought not always leave them in the hands of American companies as is the case at present. Since in fact the large industries in Canada are American industries.

As for Bell Telephone, this is a company which is at least 95 percent Canadian. I am tempted to say this is where our interest lies; and if there were other large companies in the same situation, then, I think that perhaps I would have the same attitude towards them.

(English)

**Mr. Zimmerman:** If we reduce our concept of what is Canadian-controlled to share ownership, I think we are missing the hard core of what makes an economic enterprise such as Bell-Northern or Industrial Wire or Philips Cables or anything operate. Bell Telephone has statistically a 95 percent Canadian share ownership but the concentration of power in the AT & T holding in Bell is completely adequate, for practical purposes, to control that company if they wish to exercise it. Their hold on the technical expertise, the licensing agreements, the Bell standards, give them an absolutely controlled position. As to the manufacturing philosophy, when they are going to bring in a product, these companies are interlocked at so many levels of design, manufacture and finance that I think we are departing from the harsh realities of the business world to say that this is a separate Canadian-controlled and run company. I for one do not buy it.

(Translation)

**Mr. Émard:** Not so much is the control of the company, important, but the fact that, as in the case of Bell Telephone for instance, the profits come back into Canada and are distributed to Canadian shareholders. This is precisely the point I wish to make: is of little consequence who controls which company... Undoubtedly, this is not a very interesting situation for Canadians in general, but we want, at very least, that the profits acquired in Canada be distributed among Canadians so that together all Canadians may rise in the social scale.

(English)

**Mr. Zimmerman:** Yes, I think your point on that side is well made. Let us be very careful in our country not to remain or become hewers of wood and haulers of water for others. I agree. I think there is the other side to that coin, though: that finance does not carry a national label. It is a very fluid medium and it flows to where the opportunities and the actions are. Canada, with all due respect to our own national interests and being masters in our own economic house, still must accept, I think, the economic fact that we need foreign capital and that we should not necessarily and automatically put companies that have foreign ownership in a secondary class. You may question quite rightly their motives and their interests and determine as a matter of priority that their interests are also the interests of Canada. I think that is a useful exercise; but I for one believe strongly that we should not take the attitude that to those which are all Canadian we will give special interest and that we shall lean against those which are foreign. I think this would work very much against our Canadian economic and social interests.

**Mr. Smith:** Mr. Émard, if I might just interject. One of the concerns that we have expressed amongst ourselves is that not only those are to be considered by your Committee—the companies of large size with Canadian or foreign ownership or control—but the many hundreds and indeed perhaps thousands of medium-size and small companies, purely Canadian, who could be very seriously hurt by this legislation.

(Translation)

**Mr. Émard:** I find it difficult to understand, all the same, why it is that when a Canadian company grows, progresses and reaches a certain level, most of the time it is bought by American industries, and we can never win out in the end.

I have one last question—I would have several others—but I feel this one is important, perhaps more important than the others. You mentioned on line 16 of page 1:

"The Power to issue shares without the approval of the Transport Board"

This deals with the power of being able to acquire all sorts of companies. Clause 8 of bill C-104 states that:

companies which are pursuing activities which are totally or partially engaged in the same type of work as the present company, or any other company dealing with research work or improvement in sectors of experiment which are related to the objects of this same company. Consequently, it does not mention companies that are engaged in diverse enterprises, at all, but specifically those which touch closely to the domain of communications.

(English)

**Mr. Zimmerman:** If we accept what you say as valid, it would apply, Mr. Émard, only on the first step of what then could become a whole succession of steps. I think, Jim, maybe you could...

**Mr. Torrance:** I can give you the example to which I alluded earlier of Northern Electric. I think Northern Electric is the type of company which, if Section 8 were enacted, Bell could acquire. Do you not? They have the powers to research and develop and so on. But, Northern Electric is an ordinary letters patent company and there is no restriction on the other types of companies which Northern Electric could have—and indeed it already has three—which are, I think, largely, certainly one of them in any event, unrelated to the telephone business. So it is in that way that once you get one company into the stable which has no restriction on the other companies that it can acquire, you could end up with Bell in control of many different companies having nothing to do with telephones.

(Translation)

**Mr. Émard:** The Northern Electric Company has not done this in the 70 years of their existence.

(English)

**Mr. Torrance:** Well, they have done it in regard to Northern and this is bad enough. Northern itself has three subsidiaries and what we are talking about is the granting of power. They could sit here today without any present intention of getting any other companies that in fact at the moment are unrelated to telecommunications but if you give them the power, you can never complain later that they used it. They are asking for the power.

• (12:50 p.m.)

**Mr. Bell (Saint John-Albert):** In this last context, is not what you are saying somewhat akin to the argument that the CPR made to this Committee a while ago that there should not be a misuse of our resources? In other words, if a company in Canada has a preferred position for various reasons, it should not be allowed to move into another field of competition, particularly where it may not be doing that as efficiently as the private company. In other words, you are saying mainly here today that you feel in certain aspects of this private sector even though you are a small company you can do this job as well or even more cheaply than The Bell or Northern in these particular aspects, and if this is not done then we are not getting the best in Canada as a result of this whole picture.

**Mr. Zimmerman:** That is exactly my point of view. On specific things we can do them better today, but more importantly, if this situation is controlled, three years, five years from now many people, ourselves included, will do more, more efficiently than they can. You are asking to back a single choice in areas quite removed from the telephone business or, alternatively, to keep them in the telephone business where they are obviously in the front rank and encourage them more in the front rank, but choose that area and then you put your faith and your hope on the initiative in the private sector and equate the opportunity to compete as between people having the same rules in the same ball game.

**Mr. Bell (Saint John-Albert):** There is one question that came to my mind out of a previous question. In the cases where Bell and Northern compete internationally, do you know whether they would be in direct competition with any companies connected with AT&T? Or let me put it this way to show you what I am trying to get at: It does not seem right that AT&T, an American company, would permit their "know how" to go across the border to Bell and be in competition internationally with American companies.

**Mr. Zimmerman:** Well, oddly enough, the United States government and the Consent Decree that has been appended to our brief, have taken that position. Now, I do not know

to what extent Bell and Northern compete with AT&T internationally. I do know that the "know how" out of Bell Labs is available to foreigners on fair and equitable terms. They can even go and get a licence patent and the Japanese and so on do this and use it in their own industry and this is considered in the best interests of the public in the United States. Presumably their royalties are made part of the telephone company's or whatever, but that is the position they are in and as I say, where I am accustomed to seeing Northern very effective in our export is against the European competitors. I do not know what they do with AT&T, but against the ones they named, they have been first rate.

**Mr. Bell (Saint John-Albert):** In this last question, Mr. Chairman, on financing or the issuance of stock, I take it that you are not too happy with this new method of so-called permissible earnings regulation that Bell uses now?

**Mr. Zimmerman:** No, I think it is meaningless from an accounting point of view because without a test on the effectiveness and efficiency of the Northern manufacturing arm, is simply to say that they are selling from Northern to Bell at prices that are lower than they sell to anyone else is a starting point. But, after all, Bell Telephone has a captive market towards anything of its kind in Canada; it gives this to Northern without competition; it can preplan its production; it has the advantages of technology from AT & T in the United States, so the comparison that should be applied is against themselves and, if we have set 6.2 per cent to 6.6 per cent as the allowable rate on invested capital, this should apply right down the piece, otherwise, the transfer price is building up the rate base by simply using up the equity in debt that they bring in on top to put excessive profits back into Northern. So I think by the way the ruling has been applied—the arithmetic sounds reasonable—the effectiveness and the regulatory aspects of it are meaningless in terms of maintaining control on it.

**Mr. Bell (Saint John-Albert):** Well, then you would probably agree with the Association of Ontario Mayors and Reeves who said that this might permit Bell, if they wished, to manoeuvre their earnings in such a way that

in order to present a favourable picture for the market, higher rates would result.

**Mr. Zimmerman:** I could not subscribe to it more and I think one rather typical example was the publicity recently given to this "on line banking" because it is within Bell's prerogative to lease lines for that particular service for whatever they want to charge—a cent a month. But, to compare it with others who have to go and lease that line plus the equipment rolls up a total package that no one can meaningfully look within.

Now, so far as the telephone user is concerned, he may or may not have an interest in a low "on banking charge". Most of us will not. This is something I think is a dire need for the country as a whole. But, that is a prerogative open to them, and within the present rate structure what they are offering for these unessential—not undesirable—but unessential services has no regulatory control on it at all. We are back to the old term of loss leadering. If you want to sell a service lower the cost on it.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, of course, this comes back to the conflict I suppose we are going to have to finally resolve and that is between the shareholders and the taxpayers of Canada.

May I just ask this question: Do you think it is going to be practical to do what you suggest here, that we should police the direction of the funds that Bell may get from time to time to see that they are channelled in the proper manner contained in the statutes and on which they predicated the issue on? Do you really think we can follow this through their corporate structure to see that these moneys they obtain are channelled in the direction of which they have the powers?

**Mr. Zimmerman:** I do, indeed. I think the transport board—either the new or the old one—given the will, and with a reasonable staff and budget, have available to them already tailored-made, The Bell corporate accounting system set-up. After all, all Bell companies and AT & T respond now. We are not talking about something quite different. They respond to regulatory boards in the United States on this basis and they are looked at in this way.

Now, again it is looking from the outside but I would think so far as the Company is



concerned this is quite doable. From the transport board's point of view I think it is absolutely essential and, again, quite doable given adequate technical and budget support.

**Mr. Bell (Saint John-Albert):** Perhaps they could use one of their own computers.

**Vice-President:** Gentlemen, this completes the questioning period or the brief submitted

by the Industrial Wire & Cable Co. Limited and I would like to thank the three gentlemen, Mr. Zimmerman, Mr. Torrance and Mr. Smith for their co-operation. Thank you very much.

We have finished our questioning so there will be no meeting this afternoon. This Committee is adjourned until Tuesday, November 21, 1967.

APPENDIX A-9

IN THE

United States District Court

FOR THE DISTRICT OF NEW JERSEY.

UNITED STATES OF AMERICA,	
	Plaintiff,
v.	
WESTERN ELECTRIC COMPANY, INCORPORATED	
and AMERICAN TELEPHONE AND TELEGRAPH	
COMPANY,	
	Defendants.
Civil Action No. 17-49.	

FINAL JUDGMENT.

Plaintiff, United States of America, having filed its complaint herein on January 14, 1949; the defendants having appeared and filed their answer to such complaint denying the substantive allegations thereof; and the parties, by their attorneys, having severally consented to the entry of this Final Judgment without trial or adjudication of any issues of fact or law herein and without this Final Judgment constituting any evidence or admission by any party in respect of any such issues;

Now, therefore, before any testimony has been taken herein, and without trial or adjudication of any issue of fact or law herein, and upon the consent of all parties hereto, it is hereby

ORDERED, ADJUDGED AND DECREED AS FOLLOWS:

I.

This Court has jurisdiction of the subject matter herein and of all the parties hereto. The complaint states a claim upon which relief may be granted against each of the defendants under Sections 1, 2 and 3 of the Act of Congress of July 2, 1890, entitled "An act to protect trade and commerce against unlawful restraints and monopolies," commonly known as the Sherman Act, as amended.

II.

For the purposes of this Final Judgment:

- (a) "Western" shall mean the defendant Western Electric Company, Incorporated.
- (b) "AT & T" shall mean the defendant American Telephone and Telegraph Company.
- (c) "Bell Operating Companies" shall mean the 22 corporations listed in Appendix A attached to this Final Judgment, any other subsidiaries of the defendants engaged in furnishing common carrier communications services and the respective subsidiaries of and successors to each of the foregoing.
- (d) "Companies of the Bell System" shall mean AT & T, Western, their subsidiaries and the Bell Operating Companies.
- (e) "Westrex" shall mean Westrex Corporation, a Delaware corporation.
- (f) "Patents" shall mean United States letters patent except for the reference to foreign patents in Section X (E) (3).
- (g) "Bell System patents" shall mean patents owned or controlled by either of the defendants or any of their subsidiaries, and patents on inventions made in the course of their employment by employees of defendants and their subsidiaries (other than employees of subsidiaries exclusively engaged in the performance of contracts with the plaintiff) employed to do research, devel-

opment or other inventive work, subject to any releases of rights to such employees prior to the date of this Final Judgment, and shall include patents of others under which and to the extent to which either of the defendants or any of their subsidiaries may have the right to grant licenses.

(h) "Equipment" shall mean apparatus, systems, materials, supplies, machines, tools and any other product.

(i) "Common carrier communications services" shall mean communications services and facilities, other than message telegram service, the charges for which are subject to public regulation under the Communications Act of 1934, or any amendment thereof, or would be subject to such regulation thereunder if such a service or facility were furnished in interstate commerce; and shall also include any communications service or facility, other than message telegram service, the charges for which are or become subject to regulation under existing or future laws of any state, territory, or the District of Columbia, but only in the jurisdiction or jurisdictions in which the charges for such service or facility are subject to regulation.

(j) "Associated companies" shall mean, as to defendants, the Companies of the Bell System, and as to any applicant, its subsidiaries.

(k) "Person" means any individual, partnership, corporation, association, firm, trustee or other legal entity.

(l) "Message telegram service" shall mean the electrical transmission by a common carrier of a message presented to it at one of its public offices in written form or, if presented orally, reduced to written form by the carrier and delivered by the carrier to the addressee in written form or, if orally, by a reading of the written message by the carrier.

(m) "B-2 agreements" shall mean the license agreements dated July 1, 1932, made by either or both of the defendants with General Electric Company, Radio Corporation of America, and Westinghouse Electric Corporation, or any of them, and all agreements supplementary thereto, and "other parties to the B-2 agreements" shall mean said companies, their subsidiaries, successors and assigns.

### III.

The provisions of this Final Judgment, applicable to a defendant, shall be binding upon said defendant, its officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation with said defendant who receive actual notice of this Final Judgment by personal service or otherwise.

### IV.

(A) The defendants are each enjoined and restrained from commencing, and after three (3) years from the date of this Final Judgment from continuing, directly or indirectly, to manufacture for sale or lease any equipment which is of a type not sold or leased or intended to be sold or leased to Companies of the Bell System, for use in furnishing common carrier communications services, except equipment used in the manufacture or installation of equipment which is of a type so sold or leased or intended to be so sold or leased; provided, however, that this Section shall not apply to the artificial larynx, by-products of reclamation of scrap, or equipment manufactured for the plaintiff, or for plaintiff's prime or sub-contractors for the performance of contracts with plaintiff or sub-contracts thereunder.

(B) After three (3) years from the date of this Final Judgment, the defendant Western is enjoined and restrained from engaging, either directly or indirectly, in any business not of a character or type engaged in by Western or its subsidiaries for Companies of the Bell System, other than (1) businesses in which defendant AT & T may engage under Section V hereof, (2) businesses in which Western is required to engage under this Final Judgment, and (3) any business engaged in for the plaintiff or any agency thereof.

(C) No sale of any subsidiary or assets made necessary by this Section IV need be made otherwise than at a fair price and on reasonable terms nor shall it be made except to a person approved by this Court. Defendants may apply to this Court for an extension of the time established by this Section IV, upon notice to the plaintiff, and such extension may be granted upon a showing of good cause therefor.



## V.

The defendant AT & T is enjoined and restrained from engaging, either directly, or indirectly through its subsidiaries other than Western and Western's subsidiaries, in any business other than the furnishing of common carrier communications services; provided, however, that this Section V shall not apply to (a) furnishing services or facilities for the plaintiff or any agency thereof, (b) experiments for the purpose of testing or developing new common carrier communications services, (c) furnishing circuits to other communications common carriers, (d) for a period of five (5) years from the date of this Final Judgment, leasing and maintaining facilities for private communications systems, the charges for which are not subject to public regulation, to persons who are lessees from defendants or their subsidiaries of such systems forty-five (45) days after the date of this Final Judgment, (e) directory advertising, (f) advice or assistance to other communications common carriers, or (g) businesses or services incidental to the furnishing by AT & T or such subsidiaries of common carrier communications services.

## VI.

The defendants are each enjoined and restrained from making or performing, directly or indirectly, any contract or agreement with any person whereby either defendant or its subsidiaries will have any right in any territory to act as distributor of any equipment manufactured or sold by such person, or whereby such person will have any exclusive right in any territory to act as distributor of any equipment manufactured or sold by either defendant or its subsidiaries; provided, however, that this Section shall not prevent the defendants or their subsidiaries from buying any equipment for sale or lease to, or supplying any equipment to, the defendants' associated companies or the plaintiff, or prevent Westrex and its subsidiaries from acting as distributor to sound recording studios or outside the United States, nor shall this Section be deemed to prevent the disposition in any channels of trade of any equipment originally acquired for sale to defendants' associated companies or to the plaintiff.

## VII.

The defendants are each enjoined and restrained from making, performing or enforcing, directly or indirectly, any contract or agreement with any independent telephone operating company under which such company is required to buy any equipment from them (but this shall not apply to any specific purchase order or to any specific contract for the purchase of operating plant); or with any purchaser to limit, fix or control the prices to be charged by such purchaser on the resale of any equipment.

## VIII.

The defendants are each enjoined and restrained from acquiring, directly or indirectly, any person engaged in the manufacture, distribution or sale of equipment useful in furnishing common carrier communications services, either by acquisition of securities thereof or by acquisition of its assets.

Nothing in this Section VIII shall be construed to prohibit:

(a) acquisition by either defendant of all or part of the securities or assets of its subsidiaries;

(b) formation of subsidiaries by either defendant and the transfer thereto of assets of either or of other subsidiaries of either;

(c) application of this Court, upon notice to the plaintiff, for permission to acquire the securities of assets of a person engaged in such manufacture, distribution or sale, which may be granted upon a showing that the effect of such acquisition will not be substantially to lessen competition or to tend to create a monopoly.

## IX.

Western is ordered and directed to maintain cost accounting methods that conform with such accounting principles as may be generally accepted and that afford a valid basis, taking into account the magnitude and complexity of the manufacturing operations involved, for determining the cost to Western of equipment sold to AT & T and Bell Operating Companies for use by them in furnishing common carrier communications services.

## X.

(A) The defendants are each ordered and directed to grant or cause to be granted, to any applicant who shall make written application therefor at any time or from time to time, non-exclusive licenses under all claims of any, some or all existing and future Bell System patents to make, have made, use, lease and sell any or all equipment as desired by the applicant, such licenses (1) to be royalty-free, to persons other than the other parties to the B-2 agreements, under all Bell System patents (other than patents of Teletypesetter Corporation) issued prior to the date of this Final Judgment, under which licenses or sublicensing rights were exchanged between the defendants and such other parties to the B-2 agreements, (2) to be at reasonable royalties to the other parties to the B-2 agreements under the aforesaid patents, except that such licenses shall be royalty-free to any such other party during any period for which licenses granted by it to the defendants or either of them, of the scope and character which the defendants may require it to grant to them pursuant to this Section X (A), shall be royalty-free under all patents issued prior to the date of this Final Judgment under which, and to the extent to which, such other party or its associated companies may have the right to grant licenses, and (3) to be at reasonable royalties to all persons under all other existing and future Bell System patents; but upon condition that the applicant shall grant to defendants at reasonable royalties licenses to make, have made, use, lease and sell such equipment useful in furnishing common carrier communications services and such machines, tools and materials useful in manufacturing or operating any such equipment, as defendants may then designate in writing, under all claims of any or all existing and future patents under which, and to the extent to which, the applicant or its associated companies may have the right to grant licenses. Except with the consent of the grantor of any license hereunder, no such license shall be under patents on inventions made more than five (5) years after the effective date of the license, but the applicant may make successive applications for licenses. Each grant of a license hereunder shall be for the unexpired terms of the patents under which such

license is granted, or for such lesser period as the grantee shall elect, and shall include the right to sublicense the grantee's associated companies for so long as they remain associated companies.

The provisions of this subsection (A) requiring the defendants, to grant royalty-free licenses under certain patents shall not be deemed to constitute a finding, determination or admission that such patents are without value or that the defendants are not entitled to full damages and an injunction in the case of infringement of any such patent by any unlicensed person.

(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, and also of such licenses as defendants may specify under subsection (A) above. If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, and the defendants shall, upon filing or receipt of notice of the filing of such application to this Court, promptly give notice thereof to the plaintiff. In any such proceeding the burden of proof shall be on the defendant to establish the reasonableness of royalties or other terms requested by it, and on the applicant to establish the reasonableness of royalties or other terms requested by the applicant. Pending final determination of the foregoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions. If this Court fixes such interim rates, terms and conditions, such defendant shall then tender and the applicant may then accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, if applicable, at such interim rates for any manufacture, use, or sale under the patents involved. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application.



(C) The defendants are each enjoined and restrained from including in any license granted by them any restriction or condition whatsoever limiting the exercise of the rights granted thereby except that the license may be personal and non-transferable and may be conditioned on (1) payment of a reasonable royalty, if applicable, which shall be non-discriminatory as between licensees whose licenses are granted subsequent to the date of this Final Judgment, other than defendants' associated companies, but the royalty provisions of agreements under which licenses are exchanged and royalties are adjusted or eliminated to reflect a bona fide estimate of the values of such licenses shall not be deemed to discriminate between licensees, nor shall the bona fide compromise of claims for accrued royalty be deemed to be discriminatory, (2) subjection, to any grant of licenses and rights by applicant to the defendants, of patents of any company of which applicant is a subsidiary and subsidiaries of any such company and of patents on inventions made in the course of their employment, after the effective date of the license agreement, by employees of any such company, applicant or any of its subsidiaries employed to do research, development or other inventive work, and (3) such other terms as this Court shall approve upon application by the defendants and notice to the plaintiff. If the applicant shall so request, any agreement in which licenses are exchanged between applicant and defendants shall fix a reasonable royalty for each license, where applicable, rather than providing for the adjustment or elimination of royalties.

(D) Each license agreement executed pursuant to this Section X shall contain, if the licensor so requests, reasonable provisions requiring the licensee to keep records, submit royalty statements and give appropriate license notices, and for periodic inspection of the books and records of the licensee by an independent auditor or any person acceptable to the licensee.

(E) Each license agreement executed pursuant to this Section X shall provide:

(1) That the licensee upon giving written notice to the licensor may cancel any such license for any specified equipment, but subject to paying accrued royalties.

(2) If any licensee requests, that such licensee may at any time surrender its license under any specified patent or patents identified by number by written notice to the licensor, but subject to paying accrued royalties. If any licensee requests, the license agreement shall also provide that upon such surrender the royalty rates shall be renegotiated if requested by the licensee in writing, and if there is a material difference between the reasonable value of the licenses granted to such licensee, including the patents affected by such surrender, and the reasonable value of such licenses without such patents, then such rates shall be reduced by an amount representing such difference. In event of disagreement whether a reduction should be allowed or the amount thereof, the matter may be determined in the manner set forth in subsection (B) of this Section X.

(3) If any licensee requests, a royalty-free grant of immunity under all foreign patents owned or controlled by the licensor or its subsidiaries relating to the sale or use abroad of equipment manufactured under the license granted pursuant to this Section X.

(F) Each licensee of either defendant under a license agreement in effect at the date of this Final Judgment may cancel any licenses granted to it and its associated companies under such agreement by written notice to the licensor which shall terminate the obligation to pay royalty under the license agreement with respect to any equipment not manufactured, sold, leased or put into use under such licenses prior to such notice. Within sixty (60) days from the date of this Final Judgment, defendants shall mail a copy of the provisions of this Section X to all such existing licensees.

(G) The defendants are each enjoined and restrained, except where this Court upon application by a defendant and notice to the plaintiff shall find good cause therefor, from directly or indirectly:

(1) acquiring any license, grant of immunity or similar right under patents unless such license, grant of immunity or similar right shall be non-exclusive;

(2) disposing of any patents, or rights thereunder, so as to deprive defendants of the power to grant or cause to be granted licenses as required under this Section X unless it be a condition of such disposition



that the transferee shall observe the provisions of this Section X with respect to the patents and rights so acquired and shall file with this Court, prior to such disposition, an undertaking to this effect; provided, however, that this subsection (G) (2) shall not be deemed to apply to (a) any transfer of patents or rights thereunder to the plaintiff or any agency thereof, or (b) a disclaimer, or a concession or other grant in interference proceedings; or

(3) granting or receiving any right to grant sublicenses under patents except to the grantee's associated companies for so long as they remain associated companies.

#### XI.

Western is ordered and directed, upon written request of any person, to furnish to such person a list, prepared as of January 1 of the year in which the request is made, of unexpired patents owned by either defendant or its subsidiaries, identified with the classification of the United States Patent Office on the date of issue of such patents.

#### XII.

The defendants are each enjoined and restrained from acquiring, directly or indirectly, title to any patent owned or controlled by any person other than Companies of the Bell System and employees thereof, except where this Court, upon application by either defendant and notice to the plaintiff, shall find that otherwise the defendant could not obtain rights under the patent or that the only terms upon which the defendant could obtain non-exclusive licenses under said patent are unreasonable, provided that nothing in this Section XII shall be construed to prohibit the acquisition of patents on inventions made by other persons pursuant to any research or development contract with any Company of the Bell System.

#### XIII.

The defendant AT & T is enjoined and restrained from receiving from the defendant Western any payment of patent royalty in respect of the manufacture, lease or sale of equipment by Western to the Bell Operating Companies.

#### XIV.

(A) The defendants are each ordered and directed, upon written application at any time and from time to time, to furnish to any person domiciled in the United States and not controlled by foreign interests, licensed pursuant to Section X of this Final Judgment under any patents of either of the defendants, technical information relating to equipment specified in such application, to the extent and upon the terms hereinafter set forth.

(B) The technical information so to be furnished shall be information relating to equipment manufactured by Western for sale or lease to Bell Operating Companies or AT & T for which the applicant is licensed pursuant to Section X of this Final Judgment, and shall consist, to the extent that the defendants shall have, and have the legal right to furnish, the same, of manufacturing drawings and specifications of the materials and parts comprising such equipment, and manufacturing drawings and specifications covering the assembly, wiring and acceptance test requirements of such equipment.

(C) The defendants are each enjoined and restrained from including in any agreement, under which technical information is furnished pursuant to this Final Judgment, any restriction or condition whatsoever limiting the exercise of the rights thereby granted to use such information, except that the right to use such information may be personal and non-transferable and may be conditioned on (1) payment of a reasonable charge or charges which shall be non-discriminatory as between recipients of such information pursuant to application made hereunder, other than defendants' associated companies, (2) the furnishing by an applicant to Western, upon payment of a reasonable charge or charges therefor, of its own technical information of the character and scope of that furnished by Western, but only respecting equipments for which the applicant has licensed defendants pursuant to Section X of this Final Judgment, and (3) such other restrictions and conditions as this Court shall approve upon application by either defendant and notice to the plaintiff.

Defendants' obligation to furnish technical information in any case shall be subject to

such restrictions as may be imposed at any time by any department or agency of the plaintiff for reasons of national security.

(D) The reasonable charge or charges permitted by subsection (C) of this Section XIV shall be designed to reimburse the defendants or the applicant for the cost of gathering and reproducing the information furnished and for that proportion, if any, of the development expense that is reasonable and is properly allocable to the class of equipment with respect to which the information is being furnished. The amount by which such charge or charges collected by defendants shall exceed the cost of gathering and reproducing such information shall be credited to the development and related engineering expense accounts of Western.

(E) Each agreement under which technical information is furnished pursuant to this Final Judgment shall contain, if the party furnishing such information shall so request, reasonable provisions requiring the recipient of such information to keep records, submit statements respecting charges, keep such technical information confidential, and use such technical information only for manufacture pursuant to the license granted to the recipient of such information under Section X of this Final Judgment, and providing for periodic inspection of the books and records of such recipient by an independent auditor or any person acceptable to such recipient.

(F) A party shall not be deemed, in connection with the furnishing of technical information pursuant to this Final Judgment, to have given any warranty against infringement of patents of others, or any warranty of success in connection with the use of such information.

(G) In the event of disagreement as to the amount of the charge or charges payable under this Section XIV, the matter may be determined in the manner set forth in subsection (B) of Section X of this Final Judgment.

#### XV.

(A) The defendants are each enjoined and restrained from making, performing, enforcing or adhering to any contracts or agreements under which fields of manufacture, sale or distribution of any equipment are

divided with others, provided that, subject to other provisions of this Final Judgment, an exchange of non-exclusive licenses and rights under patents, without more, between the defendants and others shall not be deemed to divide fields of manufacture, sale or distribution of equipment.

(B) The defendants are each enjoined and restrained from performing or enforcing any term or provision of any contract or agreement that (1) makes exclusive any licenses or other rights under patents, or (2) grants to one party the right to sue for infringement of the patents of another party.

(C) The defendants are each enjoined and restrained from enforcing any restriction or condition on any licenses or other rights under patents granted by either of them, that (1) imposes maximum quantity or dollar limitations, or (2) restricts sales to designated customers (except where sales are limited to subsidiaries, under existing licenses, or to the plaintiff), or (3) restricts the price at which licensed equipment may be sold.

#### XVI.

For the purpose of securing compliance with this Final Judgment, duly authorized representatives of the Department of Justice shall, upon written request of the Attorney General, or the Assistant Attorney General in charge of the Antitrust Division, and on reasonable notice to the principal office of either defendant, be permitted (1) reasonable access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda and other records and documents in the possession or under the control of aid defendant relating to any matters contained in this Final Judgment and (2) subject to the reasonable convenience of said defendant and without restraint or interference from it, to interview officers or employees of said defendant, who may have counsel present, regarding such matters, and upon request said defendants shall submit such written reports as might from time to time be reasonably necessary to the enforcement of this Final Judgment. No information obtained by the means provided in this Section XVI shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of such Department, except in the course of legal

proceedings in which the United States is a party for the purpose of securing compliance with this Final Judgment, or as otherwise required by law.

XVII.

Jurisdiction is retained for the purpose of enabling any of the parties to this Final Judgment to apply to this Court at any time for such further orders and directions as may be necessary or appropriate for the construction or carrying out of this Final Judgment, or the modification or termination of any of the provisions thereof or for the enforcement of compliance therewith or for the punishment of violations thereof. Upon any such application by the plaintiff, the plaintiff shall be deemed to have made a sufficient showing of a change in circumstances warranting appropriate modification of this Final Judgment if it shall show elimination hereafter, in a substantial number of states, of public regulation of charges for common carrier communications services.

Jurisdiction is further retained for the purpose of enabling the plaintiff to apply to this Court at any time, without the necessity of showing any change in circumstances, for orders under this Final Judgment:

(a) requiring sales, at non-discriminatory prices, of any telephone equipment manufactured by Western or its subsidiaries to independent telephone operating companies, or prohibiting or limiting sales of such equipment to such companies; and

(b) requiring that any equipment manufactured by Western or its subsidiaries that is used by AT & T or any Bell Operating Company in furnishing a common carrier communications service, other than telephone equipment, shall be sold at non-discriminatory prices to any person lawfully engaged in furnishing such a service in competition with

them or in furnishing message telegram service, for use by such person in furnishing any such service; and

(c) requiring that AT & T shall, and shall cause its subsidiaries to, continue to lease, to common carriers engaged in the message telegram business, on reasonable terms, circuits required by such carriers for use in their business, to the extent that such circuits shall be reasonably available without further construction.

Dated: January 24, 1956

THOMAS F. MEANEY  
United States District Judge

We hereby consent to the making and entry of the foregoing Final Judgment:

For the Plaintiff:

STANLEY N. BARNES  
EDWARD A. FOOTE  
W. D. KILGORE, JR.  
RAYMOND DEL TUFO, JR.

Attorneys for Plaintiff

For the Defendants:

PITNEY, HARDIN & WARD  
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Attorneys for the Defendants

For the defendant AMERICAN TELEPHONE AND  
TELEGRAPH COMPANY

HORACE P. MOULTON  
Its Vice President and General Counsel

For the defendant WESTERN ELECTRIC  
COMPANY INCORPORATED

WALTER L. BROWN  
Its Vice President and General Counsel



## Appendix A

Bell Telephone Company of Nevada	The Chesapeake and Potomac Telephone Company of Maryland
Illinois Bell Telephone Company	The Chesapeake and Potomac Telephone Company of Virginia
Indiana Bell Telephone Company	The Chesapeake and Potomac Telephone Company of West Virginia
Michigan Bell Telephone Company	The Cincinnati & Suburban Bell Telephone Company
New England Telephone and Telegraph Company	The Diamond State Telephone Company
New Jersey Bell Telephone Company	The Mountain States Telephone and Telegraph Company
New York Telephone Company	The Ohio Bell Telephone Company
Northwestern Bell Telephone Company	The Pacific Telephone and Telegraph Company
Southern Bell Telephone and Telegraph Company	The Southern New England Telephone Company
Southwestern Bell Telephone Company	Wisconsin Telephone Company
The Bell Telephone Company of Pennsylvania	
The Chesapeake and Potomac Telephone Company	

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OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House.*



HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

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TUESDAY, NOVEMBER 21, 1967

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Respecting Bill C-104,  
An Act respecting The Bell Telephone Company of Canada.

WITNESS:

Mr. V. O. Marquez, President, Northern Electric Co.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit. Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Énard,

Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nugent,  
Mr. O'Keefe,

Mr. Orlikow,  
Mr. Pascoe,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—24.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## MINUTES OF PROCEEDINGS

TUESDAY, November 21, 1967

(10)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Bell (Saint John-Albert), Byrne, Cantelon, Émard, Deachman, Horner (*Acadia*), Howe (*Wellington-Huron*), Lessard, Macaluso, McWilliam, Orlikow, Pascoe, Rock, Saltsman, Southam, Stafford—(17).

*Also present:* Mr. Groos, M.P.

*In attendance:* Mr. V. O. Marquez, President, Northern Electric Co.

The Committee resumed consideration of Bill C-104.

The Chairman introduced the President of Northern Electric who was appearing at the request of the Committee. Mr. Marquez responded to questions of the Members concerning the operations of Northern Electric Co.

At 11.50 o'clock a.m., the Committee recessed for five minutes. At 12.45 o'clock p.m., there being no further questions, the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

*(Recorded by Electronic Apparatus)*

**Tuesday, November 21, 1967.**

● (9:45 a.m.)

**The Chairman:** Gentlemen, we will start off with the questioning of Mr. Marquez, President of Northern Electric. This is at the request of members who were interested in the attendance of Northern Electric. There is no brief, of course; it is just a matter of questioning. I will now take names for questioning.

**Mr. Bell (Saint John-Albert):** I have only one question on my mind and it is a general one. I would like to hear a little about Northern Electric's success in the international market. I am asking this because Bell has said that there is certainly a justification in the relationship between Bell and Northern inasmuch as Northern has been able to gain markets internationally that it might not have been able to without this network. I just ask that generally. I might have one or two supplementaries, but it is merely to put this on the record.

**Mr. V. O. Marquez (President, Northern Electric Co. Ltd., Montreal):** Mr. Bell and gentlemen, Northern entered the international market seriously some five years ago, not because we thought it was a fashionable idea but, as we saw it, for reasons of sheer survival. We could perceive a very obvious trend which had started after the war in the direction of reduced tariff barriers and this was a situation over which we had no control but which we certainly felt we had to learn how to adapt to.

The question was whether we were going to content ourselves with doing a job in the domestic market and then wake up some morning to discover that the tariff barriers were down and we were losing our market to foreign competitors, or whether we were going to get out while we still were capable and try to develop some competence in the international field, which we did.

It is tough going. We are up against some pretty capable competitors who have had many, many years of experience in that field: the L. M. Ericsson Company of Sweden, the

Siemens Company of Germany, the IT & T, which is an American-based company but has plants in 49 countries, the Japanese, and others. We began to try to do some work in the American market and in the offshore markets and we have had, I think, some success. We have been selling certain products quite regularly in the United States market.

We have managed to open up other markets overseas. For the time being, some European markets are closed to us, not because of tariffs but because of national policy. For example, the British post office will not even permit a foreign competitor to bid. We are still working on this but these are the facts of the case. Similarly in France; most European countries where the communications systems are owned by the state, a foreign competitor is not even permitted to bid. Consequently we have had to make our attacks, if you like, in the developing countries.

We have had success in Central America, we have had success in Africa, we have had success in Turkey, we have had success in Greece, and elsewhere. Unfortunately, in a way, some of these jobs are, I think by anyone's standards, too big. We would much prefer to have the opportunity to compete in a small way and learn as we go along. Unfortunately we do not have the choice, and oddly enough, because the developing countries have very little money, they do things on a big scale. If that sounds paradoxical, it merely is that they have to borrow money from the World Bank or from the supplying country and you do not borrow \$50,000; you borrow \$5 million or \$25 million. This creates problems because the stakes are pretty high.

Getting into a country like Turkey, as we have succeeded in doing, effectively closes the door against competition for a period of time, and no one looks forward to this kind of situation easily. So the fighting is pretty tough. For another thing, because the jobs are very big, the customer takes a long time to make up this mind and this creates a

problem which is not any more acceptable to our competitors than it is to us.

However, in spite of these problems, we have built up a volume of business which has run from \$7 million or \$8 million in the first year to somewhere in the neighbourhood of \$15 million. At the moment we have about \$50 million of international business on our books. I do not mean that we have billed that this year not that we will bill that next year but we have business at present which will take us as far as 1970 and adds up to about \$50 million and which, of course, we hope will be added to because this is not the kind of position in which we relax.

• (9:50 a.m.)

I might add incidentally, that this kind of exercise we are convinced is good for us and good for the country. It sharpens our technical competence and it puts great pressure on our cost reduction capabilities. It is relatively easy, when you live in a protected economy, to lull yourself into a sense of false security and to think you are a damn sight better than you are. It is not until you get out in the rough-and-tumble of international competition that you discover that you perhaps are not always as capable as you think you are; but if you have the kind of confidence that I think we have been able to develop, very largely because of our association with Bell over the last 80 years, well then we have something to build on. I would say that in five years we have become what our competitors consider a force to be reckoned with. We were nobodies in the international field five years ago and our competitors pay a good deal of attention to us today.

**Mr. Bell (Saint John-Albert):** Who would be your main competitors, for example, in Africa?

**Mr. Marquez:** The competitors, Mr. Bell, are pretty well the same wherever you go in the world. They are principally the L. M. Ericsson Company of Sweden, who are a very competent company. We think of Sweden as a small country. It has seven million people. We talk about Canada being a small country but Sweden with seven million people has done a remarkable job of developing competence and skill. Our competitors include the L. M. Ericsson Company, the Siemens Company of Germany, the IT & T, which is an American-based company but which has factories in many, many parts of the world—49 locations or thereabouts. They include a great many English subsidiaries. Standard Telephone and Cables, for example,

is a subsidiary of IT & T but they have subsidiaries elsewhere.

The Japanese are competitors and, from time to time other companies, depending on what the product is. There is the Plessey Company of Great Britain and the British General Electric, depending on the product. But these are the main ones that I have named.

**Mr. Bell (Saint John-Albert):** Do you think there could be a practical separation of your domestic and international activities as has been suggested by others from time to time with respect to the combines matter generally?

**Mr. Marquez:** You are talking now about the question that has been raised from time to time as to whether the combines legislation inside hampers us in our activities outside.

**Mr. Bell (Saint John-Albert):** Well, yes. I am not accusing you of any breaches of the Combines Investigation Act. I am simply saying that many have said through the years that while we have to preserve the strict law in Canada for domestic business there might be some merit in allowing companies to combine for international markets. Others have proposed here—Industrial Wire & Cable Co. Limited but I do not have their exact words—that they might not be unhappy if there was some way similar to that in the United States where there could be preserved the full competitive position domestically but that they might allow or go along with some sort of a situation for international markets. I am just wondering if you feel that this could be carried out practically in your business?

**Mr. Marquez:** I think I accept the general premise that it is very difficult to set up one set of rules to apply in the domestic market and another to apply in the international market, but speaking specifically so far as Northern Electric is concerned, I have to say that up to the present time we have not been hampered by the internal combines legislation, which we respect.

We certainly have had no occasion up until now to feel that we could have done something better than we are doing at the present time but could not do it because of combines legislation. But I can readily conceive that in some lines of business, for example in selling a basic commodity like copper where you are talking about world



prices, it is very difficult to think that you might have some situation where you are allowed to collude on prices for the international market but you cannot for the domestic market.

**Mr. Howe (Wellington-Huron):** Mr. Chairman, could I ask a supplementary question just for clarification? When you spoke of the competition you have in international markets you mentioned mostly international companies outside of Canada, are any of the companies such as Industrial Wire & Cable Co. Limited and Phillips Electrical Company Limited and Canada Wire & Cable Co. Limited, in competition with you in this international field?

**Mr. Marquez:** First of all, Mr. Howe, Industrial Wire, as I think they have pointed out, are not in the communication cable field. They manufacture non-communication cables, low voltage bar cables, building wires and things of that kind. Our effort in the international field has been largely restricted to communication type products so that we do not find ourselves in competition overseas, until now in any case, with Industrial Wire. As far as Canada Wire are concerned, they are very big cable manufacturers in the non-communication cable field and relatively small in the communications field. We are a sort of mirror image of Canada Wire. We are big in the communication cable field and relatively quite small—it may interest you to know that we are not any bigger than Industrial Wire—in the non-communications cable field—never mind how we look. And consequently all our activities in the international field have been largely limited to communication cables, and we have not had the experience so far of encountering either Industrial Wire or Canada Wire in that particular field.

On one occasion we did find ourselves in competition with Phillips. We were bidding on a job in Africa and we were in a consortium in which there were one or two other suppliers elsewhere in the world and we were supplying the cable and Phillips was in another consortium in which they were supplying the cable and they have got the job.

**Mr. Howe (Wellington-Huron):** In the same connection, Mr. Chairman, I wonder if the witness would tell us this. In your area of research and production, have you come up with any products that are unique in the world and that you are a first with? About which you can go out and say in this competition: "We have got something that will do

the job better because of our research work in that particular field"?

**Mr. Marquez:** Yes, Mr. Howe, we have indeed, and we hope we will to a greater extent in the future. We have a parametric amplifier, for example, that was one of the first of the products that we developed in our research and development labs that is of widespread use throughout the world. We have developed a small crossbar switching exchange that fills a need that was peculiar to Canada. In the United States they did not see any reason to fill that particular need and this particular system met an immediate response in Canada and elsewhere. We have a new type of switching system which has just been developed on which we are making substantial headway overseas because we are offering a product that is available from no one else.

**Mr. Howe (Wellington-Huron):** Thank you, Mr. Chairman.

**Mr. Pascoe:** May I ask a supplementary question, Mr. Chairman?

**The Chairman:** Not a supplementary, Mr. Pascoe; Mr. Bell is finished. You are right after him.

**Mr. Pascoe:** It is along the same line. In the Northern Electric report for 1966 on page 3 it says that

Products bearing Northern's trademark are exported to many countries of the world.

This telephone cable is being shipped to Thailand. There is a picture of it there. Do you have to ship special products to them, or is it just the uniform products that you manufacture anyway that go to these countries?

**Mr. Marquez:** Mr. Pascoe, it varies. Sometimes we can supply standard products but I would say that more often than not we have to meet the particular specifications of the country to which we are shipping.

**Mr. Pascoe:** I have just one more question on that. You said "this telephone cable". Are most of the products which you send overseas telephone equipment?

**Mr. Marquez:** Almost everything that we are shipping overseas is in the communications field.

**Mr. Pascoe:** Not particularly telephone, though.

**Mr. Marquez:** I am just trying to think of the image it creates. The subscriber thinks of the telephone system as the telephone that he uses. There are all kinds of things of course that go behind it. There are complicated switching systems. There are complicated transmission systems, microwaves and, in modern times, satellites. There is outside plant in terms of cable and loading coils and a variety of other things; and of course there is the station apparatus which is the device that the subscriber himself uses. But by and large our efforts in the international field have been so far—I would not say restricted but let us say our greatest success has been in the communication products.

**Mr. Pascoe:** And most of those are uniform. In special cases you have to make special products.

**Mr. Marquez:** I would put it the other way. On rare occasions the standard product is saleable. On most occasions the product has to be redesigned or modified or altered in some way or another to meet the local requirements because—let me amplify to this extent—when we sell a communications product in the United States the probabilities are that it will be of the same nature as the one we sell in Canada although if we are talking about a switching system, no switching system is like any other. Every one is a custom-built job. It has to be designed to meet the particular requirements of the customer. Once we get away from the United States we find a world which has been exposed to European technical influences to a much greater degree than to American technical influences and consequently a good deal of design, adaptation, or modification is necessary in order to meet what the customer requires.

**Mr. Pascoe:** I have just one more question, which I have already asked Industrial Wire & Cable. What do you see in regard to the arrangements through GATT? Do you see opportunities or stiffer competition?

• (10:00 a.m.)

**Mr. Marquez:** I prefer to answer your question this way, Mr. Pascoe; we see a situation to which we must adapt. It is not a question whether we like it or not. The world is not going to adjust itself to suit us; we must adjust ourselves to suit it. This develops a point of view. We say to ourselves if this is going to be the situation, how can we deal with it to best advantage? From that point of

view we regard it as an opportunity. Quite obviously when tariffs go down there are also going to be problems involved. We have to try to make the most of our opportunities and minimize the hardships, if you like.

**Mr. Pascoe:** When you say you must adapt yourselves to this situation, do you mean lower costs of production?

**Mr. Marquez:** Right. Lower costs of production, gain more competent technical skills and the ability to produce designs which are more in keeping with what the customers need and which our competition is perhaps producing.

**Mr. Pascoe:** Thank you.

**The Chairman:** Mr. Southam.

**Mr. Southam:** Mr. Chairman, along the same line of questioning, I am very interested in our witness's information regarding their entering into the international field in the sense of being in the world scene. In recent months it has been pointed out by the figures that have been tossed around that Canada is lagging about 30 per cent in productivity. This is a big lag. Of course, you people who are going out into the international field must have taken this problem into consideration. As you explained, because of tariff protection, and so on, you built up sort of a state of complacency, but is this figure of 30 per cent a fact in your particular business? What are you doing to overcome it? Are you spending more money on research so that our Canadian creativity and ingenuity will build up types of products that will compete on world markets satisfactorily? How are you approaching this problem?

**Mr. Marquez:** First of all, Mr. Southam, you realize the common statement that is now being made by the Economic Council is that productivity in Canada is 25 to 30 per cent lower than it is in the United States and, like all averages, it is a situation which perhaps never appears in the particular. One of my friends at Northern used to tell a story about an engineer who drowned trying to wade across a river that was four feet deep on the average!

I think in many instances we are considerably better than the average. We are never as good as we think we should and could be but we are certainly selling products in the United States over a 17.5 per cent duty and selling them profitably. Obviously in those instances our productivity for one reason or



another is better than our competitors in the United States.

**The Chairman:** What percentage of your business is done in the United States, Mr. Marquez?

**Mr. Marquez:** It is quite small at the present time. Of our present total manufactured product output of somewhere in the neighbourhood of \$300 million, our United States volume is somewhere in the neighbourhood of \$7 or \$8 million.

**Mr. Southam:** Basically how much of your gross national product do you re-invest in research and development of technical know-how, and so on, as far as your company is concerned?

**Mr. Marquez:** More than we can afford at the present time, Mr. Southam. Last year I think the annual report showed that we spent something like \$22.6 million on research and development and this year the figure is somewhat closer to \$26 million. It is a very heavy load to bear and in the last ten years, as a result of the Consent Decree about which Industrial Wire spoke, we have gone through the experience of a radical change in our former relationship, where we had very easy and economic access to Western Electric technology. Northern Electric is now in the position where the technology that we obtained from Western Electric can now be obtained by any other company anywhere in the world.

**Mr. Southam:** When you say that your investment in research is more than you can actually afford at the present time, I presume you are doing this to try to catch up with the lag?

**Mr. Marquez:** That is right. We had to develop confidence.

**Mr. Southam:** I also presume that you were figuring on an economic basis of amortizing this over the next ten or fifteen years so that you would gradually reap the benefit?

**Mr. Marquez:** Yes, that is right. Unfortunately you cannot capitalize research, you have to write it off, and consequently in the short-term it represented a serious drain on the company's short-term performance. We had to start from a standing start, if you like, from a point where we were almost completely dependent on foreign technology, and build up some confidence of our own. Let us be clear on this point. In my opinion, no

Canadian company—certainly not in the communications field—can aspire to being completely independent in the matter of technology. The field is too broad. The problem is to be selective, to devote your effort and your resources to those areas which will be of unique value and which are not available elsewhere, and we are attempting to solve problems which other people have not solved in our domestic market and in the markets that we are going to try to obtain.

**Mr. Southam:** What you are saying, in other words, is that internationally you cannot be a jack of all trades and master of none; you have to be selective and specialize and this must be recognized in world markets.

**Mr. Marquez:** Right.

**Mr. Southam:** You mentioned having to get into the international field in order to survive, and I feel that your problem is common to many other Canadian industries. As far as secondary and basic industry is concerned, this is something that we have to be concerned about in Canada.

**Mr. Marquez:** Yes, sir.

**Mr. Southam:** Thank you, Mr. Chairman.

**The Chairman:** Mr. Cantelon.

**Mr. Cantelon:** I notice you have gone into the foreign market. I wonder if your business in that market is in any way inhibited by the fact that in Canada we do not use the metric system, which is used in practically every other country of the world with the exception of Great Britain and the United States.

**Mr. Marquez:** Yes and no, Mr. Cantelon. I think it probably would be more economic if we used the metric system. Many of our competitors use it. Of course, the British still do not use it and they have been such great traders throughout the world that most of those parts of the world which have become accustomed to the metric system are still to some extent accustomed to the British "foot-pound-second" system, such as we use. The problem of going over to the metric system is very complex. It is not just as simple as saying that you take your inch dimensions and turn them into metric equivalents. It means that when you use raw materials you will use raw materials which are made to the metric rather than to the corresponding inch size and throughout the whole country you have to have the back-up of the people who



are producing raw products according to the metric system. But speaking broadly, to answer your question, it has not been a serious handicap, although it undoubtedly has cost us more than it would if we were using the metric system.

**Mr. Cantelon:** I am very interested in this because it seems to me that this is the coming system. I wonder how long it will take to come into effect in Canada. Obviously you do not sell by the metric system, you sell by the Canadian system of measurement?

**Mr. Marquez:** Yes, sir.

**Mr. Cantelon:** Am I right in that?

**Mr. Marquez:** You are right.

**Mr. Cantelon:** Thank you.

**The Chairman:** Before we leave that, Mr. Marquez, who are Northern Electric's competitors in your manufactured main line products both domestically and in the export field? Perhaps you would first tell us what your main line products are and we can go on from there.

• (10:10 a.m.)

**Mr. Marquez:** Our major products, of course, are a broad cross-section of those products used in the communications field. We manufacture switching equipment, which is the heart of any communications system. It is the device which you do not see which enables you to pick up a telephone in Ottawa and dial someone in San Francisco and get right through to them. Switching is a very complex chain network which operates almost instantaneously, and it is becoming increasingly complex. There is transmission equipment, which is the equipment used to jump over fairly long distances. Microwave is the common system that is in use at the present time but we will probably see satellites being used for this purpose to a greater extent in the future. There is also what we call outside plant, which is cable; cable terminals; loading coils; a wide variety of things that are used to bolster the system, you might say, for connecting purposes. Then, of course, there is what we call station apparatus, which is subscriber equipment, and it may be an ordinary telephone, a key set, a business telephone, a call director or whatever the initiating device is that puts the signal on to the line.

Our major competitors in Canada in that field, leaving cable aside for the moment, are

Automatic Electric (Canada) Ltd; the IT&T, who have set up a number of factories in Canada; the L. M. Ericsson Company; a good many British companies that come here on an office basis and sell, in the transmission field particularly. I was talking switching there. In the transmission field there are a great many other companies such as Collins Radio and Lenkert. I cannot think of them all. There are a dozen companies which are offering microwave systems of one kind or another. There is RCA, for example, a very large one.

In the cable field, of course, there are a dozen cable companies, not all of whom are in the communication cable field. Phillips and Canada Wire are in communication cables; and we get competition, of course, from overseas in the communication cable field, as well.

**The Chairman:** Mr. Marquez, do you export cable?

**Mr. Marquez:** We export cable, yes.

**The Chairman:** Who would be your international competitors?

**Mr. Marquez:** The Japanese, BICC, L. M. Ericsson, Standard Telephone and Cable; there are a good many. I beg your pardon, Mr. Rock?

**Mr. Rock:** Industrial Wire and Cable?

**Mr. Marquez:** Not in the communication cable field, Mr. Rock. They are in the non-communication cable field. They make building wires, as we do, and they make low voltage power cables, as we do. It might be interesting to note at this point, as I said a little earlier, that when it was remarked here a week ago that Industrial Wire get 5 per cent of the market, and we were put into some very large position on the market, this should be explained a little more carefully.

**The Chairman:** Mr. Rock, you can come to that when you start your questioning. I want to finish with the supplementaries on exports.

What are the comparative export performances of Northern Electric and each of its competitors? Do you know?

**Mr. Marquez:** I would not know.

**The Chairman:** You must have done some research on it.

**Mr. Marquez:** I can tell you that the L. M. Ericsson Company of Sweden, for example, depends on export for probably 80 per cent of its business. At the moment exports represent perhaps 6, 7 or 8 per cent of our business.

**The Chairman:** Six to 8 per cent. In the same field...

**Mr. Deachman:** Six to eight per cent?

**The Chairman:** Seven or eight.

**Mr. Marquez:** It is quite small.

**The Chairman:** What tariff protection is accorded to each of the product lines of Northern Electric, and do you import any at all? I am interested at the moment in the tariff protection that may be accorded any of your main product lines.

**Mr. Marquez:** Communication products and cables have a tariff protection of approximately 20 per cent, Mr. Macaluso. It varies a little, but 20 per cent is a good, fair figure.

**The Chairman:** Telecommunication, products?

**Mr. Marquez:** And cables.

**The Chairman:** This is accorded to all your domestic competitors, is it not?

**Mr. Marquez:** That is right. This is the Canadian tariff.

**The Chairman:** Do you import anything for your manufactured products?

**Mr. Marquez:** Ninety-six per cent of our manufactured products are made in Canada, either by ourselves or by several thousand subcontractors who manufacture for us.

**The Chairman:** And the other 4 per cent would come about from...?

**Mr. Marquez:** There are certain products that we cannot obtain in Canada. For example, until comparatively recently, for the paper ribbon that we used for the manufacture of paper telephone cables—the individual conductors are insulated with a paper ribbon—there was no Canadian manufacturer that could meet the specifications, and this material had to be procured in the United States.

**The Chairman:** Do you get tariff protection if you cannot find a Canadian manufacturer?

**Mr. Marquez:** I am not quite sure that I understand what you mean. Whether there is tariff protection or not, no Canadian manufacturer found the requirement in Canada sufficient to justify this setting up to make it.

**The Chairman:** Was there any tariff allowance because of that problem?

**Mr. Marquez:** No. However, I might continue by saying that we no longer do this. We have changed the design of our communication cable and are now insulating it with paper pulp which, we buy in Canada.

**The Chairman:** Thank you, Mr. Marquez. Mr. Rock, you can get back to Industrial Wire and Cable now.

**Mr. Rock:** Yes. Mr. Marquez, I would like you to continue on that.

**Mr. Marquez:** I was going to remark, Mr. Rock, that if you really seek a comparison you must look at the areas in which the two companies are competitive. We are very big people in the communications field, as Canadian companies go; we are really quite small in the non-communication cable field. In those products in which we are competitive with Industrial Wire and Cable we get about the same share of the market as they get, which is about 14 per cent.

**Mr. Rock:** On page 17 of the Industrial Wire & Cable Company Limited brief they say:

The principal products manufactured for Northern's electrical supply operations are wires and cables and these often form loss leaders in connection with large tenders.

Does your company resort to loss-leader practices, as indicated by that statement of Mr. Zimmerman in his brief?

**Mr. Marquez:** I can only assume, Mr. Rock, that Mr. Zimmerman was misinformed on what goes on in practice. We sell the wires that we manufacture, such as building wires, to contractors. A contractor who is bidding on a job to put up a commercial or industrial building, has to buy a lot of materials for it, such as lighting fixtures, pipes, outlet boxes, etc. You know the thousands of electrical details that go into the manufacture of a product.

When we bid on one of those jobs as a distributor we cannot bid a lot price; we have to bid an individual price on every product. If we were foolish enough to put in



wire as a loss leader that is what we would end up with, and nothing else. He would buy the wire from us and buy everything else from other people. As is normal, he tries to find who is giving him the best deal on fixtures, who is giving him the best deal on wire and who is giving him the best deal on pipes. That is the way he works.

**Mr. Rock:** Does all your non-Bell business earn a profit?

**Mr. Marquez:** Yes, indeed, it does.

**Mr. Rock:** I have somehow been left with the impression that Bell subsidizes Northern in some manner. At least, I have the impression from the brief that Bell's operations had subsidized Northern and that Northern somehow operates at a loss quite often outside of this deal with Bell.

**Mr. Marquez:** Mr. Rock, I can speak with some personal experience in this. For quite a number of years I was involved in what Northern used to call its sales division, which was set up to deal with customers other than Bell in domestic Canada. In fact, from 1957 to 1962 I was the general manager of that division.

I was not involved at all in pricing to Bell, and I had some pretty severe return-on-investment targets I had to meet. In fact, it has been Northern's internal practice for many years to examine annually its relative profitability in terms of return on capital used on its Bell business and on its non-Bell business. I refreshed my memory on these figures before I came here, and taking the twenty year period starting in 1947, in twelve of those twenty years we were able to make a better return on investment on our non-Bell business than on our Bell business; in five years the figures were approximately the same; and in three of the twenty years the return on the non-Bell business was somewhat lower than on the Bell business; not a bad return, but somewhat lower than the non-Bell business, and from that point of view we felt we had not achieved what we had been trying to do.

**Mr. Énard:** May I ask a question?

**The Chairman:** Well, Mr. Énard, you are on the list later on. Let Mr. Rock finish, please.

**Mr. Rock:** Mr. Marquez, would it be desirable to extend the benefits of Bell's stock plan to Northern Electric employees?

**Mr. Marquez:** From the Northern Electric employees' point of view, indeed it would. They have for many years been making representations to company management asking that this be done. In fact, the telephone company has made such representations to the board, so far unsuccessfully. We still cannot buy Bell stock other than on the open market, as can anyone else.

**Mr. Rock:** Do you feel that this Committee should somehow amend this bill so that the employees of Northern would have the same benefits as the employees of the Bell Telephone Company?

**Mr. Marquez:** That, I think, Mr. Rock, is for this Committee to decide. If you ask me whether Northern Electric employees would appreciate the opportunity of being able to buy Bell stock under the same conditions as Bell's employees, yes, indeed, we would.

• (10:20 a.m.)

**Mr. Byrne:** I was interested in your statement that you were unable to bid on equipment in any of the communications industries where they are state owned. Is that correct?

**Mr. Marquez:** That is pretty well the case.

**Mr. Byrne:** Have you actually made representations to the British telephone system or post office?

**Mr. Marquez:** We have and we are, Mr. Byrne. We have not given up on this. We are slugging away at this because the circumstances at the present time are such that the kind of things that we have to offer are becoming of increasing interest to the British post office. You may or may not know that the British are in process of separating the post office from the telephone system. They are setting up to Crown corporations now which will be parallel to one another rather than intertwined the way they were before. It appears that the demands, the requirements, of the telephone system will receive somewhat greater attention because it is no secret, of course, that telephone communication systems outside of North America, to put it mildly, are not quite of the same standard as those that we enjoy here.

**Mr. Byrne:** Does the same obtain in France?

**Mr. Marquez:** Yes.



**Mr. Byrne:** In France is it a state-owned telephone communication system?

**Mr. Marquez:** Yes. French PT & T.

**Mr. Byrne:** I note in the Bell brief they show a table on page 20. This table represents the hours of work required in the various countries to provide a monthly telephone service. In Canada—Ontario and Quebec—it is 2.10 hours. In London it is 4.56 hours. In Paris it is 15.84. Have you any comment as to why this obvious disparity exists? Is it a matter of efficiency?

**Mr. Marquez:** It is not easy to comment on this. The points of view on communications in non-North American countries are quite different from here. In North America the general attitude on the part of telephone operating companies to the customer is: use the telephone more. In most other countries the general emphasis is: use the telephone less; the system is already overloaded.

**Mr. Byrne:** Would that mean that it is not efficient to use the telephone? If it is overloaded the service is not there.

**Mr. Marquez:** That is right. The service is not there. The service is not good.

**Mr. Byrne:** Which comes first?

**Mr. Marquez:** Well, this is one of those chicken and egg situations. The better service you give the customer the better service he demands and the more he is inclined to use the service. We think of Canada and North America as countries in which the telephone density is great—that is the number of telephones per hundred people—but we sometimes overlook the fact that the telephone usage is very great, too. That is, the use which each subscriber makes of his telephone is far beyond that which takes place elsewhere. They use the post more frequently for the simple reason that they usually have very good postal systems and not very good telephone systems.

**Mr. Byrne:** What sort of reply do you receive from these state-owned organizations when you make application to contract?

**Mr. Marquez:** I can speak specifically about Britain. We get great interest from the engineering people...

**Mr. Byrne:** But from politicians?

**Mr. Marquez:** ...then somewhere up along the line it dies.

**Mr. Byrne:** Is the Swedish L. M. Ericsson state owned?

**Mr. Marquez:** No, sir. It is not.

**Mr. Byrne:** It is one of the most efficient.

**Mr. Marquez:** It is. It is one of our keenest competitors. It is a very competent company from which The Bell Telephone Company have just bought some millions of dollars worth of equipment.

[Translation]

**Mr. Émard:** Mr. Chairman, I would like to ask a supplementary question to that asked by Mr. Rock a moment ago. I might not have understood this correctly, but according to me, Mr. Marquez would have said that, the profits made outside the Bell Telephone Company of Canada, were greater than those made within the Bell Company itself. If I have heard right, how do you explain this? If I remember well, you have already concluded an understanding with the Bell Telephone Company of Canada which states that: "Bell must be treated as the most preferred customer."

**Mr. Marquez:** Mr. Émard, I hope you will allow me to answer your questions in English, for I can better express my thoughts in that language.

[English]

The products that we are talking about in the non-Bell field are to some extent communications products but to some extent non-communications products as well. What this means really is that when we sell a telephone set, for example, to a customer other than The Bell, we sell it at a higher price and consequently you might say the opportunity is there to make a somewhat better margin of profit than we make when we sell the same product to The Bell.

This is not always the case because we quite obviously have other considerations. These customers are more widespread geographically but the whole purpose of the exercise is not to make more money in absolute terms but to make a better return on the capital used when we are doing business with people other than The Bell. This is our way, if you like, of justifying some use of the capital invested in us for purposes other than directly to serve The Bell Telephone. Am I making myself clear?

**The Chairman:** Why is it cheaper to The Bell? Is it because of volume of sales or because it is a wholly-owned subsidiary?

**Mr. Marquez:** I would say, very largely volume. Let me put it to you in these terms. We make—just to give you a simple product—the ordinary telephone set that you see in your home. We make about a million of those a year. More than half of that goes to The Bell Telephone Company so they are, by any yardstick you use to measure, by far our largest customer. Sixty per cent of our manufactured product is sold to The Bell Telephone. But it is also true that we have the advantage of Bell forecasts. We have a close working arrangement with The Bell Telephone Company, as you might expect, and consequently we are in a somewhat better position than we are with other customers to anticipate their requirements. These are the two major factors which enable us to sell our product to The Bell Telephone Company quite properly and appropriately at a lower price.

[Translation]

**Mr. Émard:** Could you mention all companies in which Northern has any financial interest?

• (10:30 a.m.)

[English]

**Mr. Marquez:** Northern had a subsidiary—I will take these in no particular order, Mr. Émard; I will just mention them. Back in the mid-forties Northern set up a subsidiary called NOREL Realities. The idea we had at the time was that this might be a useful company to hold the real estate on which we had our plants. The fact is that we never used the company and the charter has been abandoned.

We have a small subsidiary which at the moment is not active in the Caribbean that we call Northern Electric Caribbean. We did assemble telephone sets for a short while in Jamaica and for the moment we are holding the charter on that company but we are not using it.

We have a subsidiary of which we own 51 per cent in Turkey. Part of the requirement in bidding on the big Turkish job was that we set up facilities to manufacture some of the product in Turkey and we now own this Turkish subsidiary in partnership with the Turkish PT & T who own 49 per cent.

We also set up in the 1930's a company called Dominion Sound Equipment, which has been referred to in some of the representations that have been made before this Committee. Dominion Sound Equipment was set up in the 1930's because at that time, out of

the communications laboratories in the United States, in particular the Bell Lab and Western Electric who at that time owned a part of Northern, came a good many products which in those days were on the leading edge, the fringe if you like, of the communications field. The product I am referring to, particularly, was theatre sound equipment.

Most of you, I am sure, must have seen and you can still see in theatres when a picture starts, the words, "Western Electric Sound Recording". It was the Bell Lab design and the Western Electric product that provided the first sound in motion picture theatres. Northern was manufacturing sound equipment in those days and the Dominion Sound Equipment Limited, a subsidiary of Northern, was set up to provide a channel to the theatres in Canada and to supply them with product and service for the sound systems they had to instal. As the years went by, both Western Electric and we went out of this field from the manufacturing point of view, but we continued to provide this theatre service. Someone had to do it and the equipment was, of course, to a very considerable degree, equipment that we originally supplied.

Somewhere in the late forties or early fifties the Famous Players people who own a great many of the theatres in Canada, decided to set up their own servicing organization called General Sound and Theatre Equipment Limited. This, in fact, meant that almost at one stroke the number of customers that were available to Dominion Sound was cut in two. This more or less unsatisfactory condition continued for some time and finally we said to Famous Players that this did not seem to make a great deal of sense, and we were not interested in operating in a field where the purpose for which it was originally intended was no longer there. We suggested that they take over the theatre end of this business, which they did. They persuaded us, then, to take a small interest—a minority interest—in General Sound. They, as it were, bought our inventory and we still have an interest with some \$300,000 in General Sound which we would be prepared to sell to them tomorrow if they would buy it because we are not interested in it any more. But we do have that minority interest in General Sound.

In the meantime, we were still left with this organization we had set up for the purpose of servicing the theatre industry—Dominion Sound—and in the period when the original theatre business that it had been set up



for began to divide itself into two and in order to try to give this business some profitable base on which to work, we broadened its mandate and began to have it do some work in allied fields such as the acoustic treatment of auditoriums, halls and theatres. This continued for some time and we, I might add, recognizing that this organization no longer was fulfilling the purpose for which we originally intended it, tried to sell it, unsuccessfully. In the last three years we have wound it up and Dominion Sound still remains nominally a subsidiary of Northern, but by the end of this year it will have been completely wound up and we will be surrendering the charter.

The primary reason behind this, of course, is that it was set up for a very valid reason in the first place. The reason disappeared and we had a responsibility to the some hundred-odd people who were employed in this company to go about the abandoning, you might say, of this company in what we considered to be a reasonable way.

[Translation]

**Mr. Émard:** Do you feel that this type of activity is profitable or detrimental to telephone users? I wish to speak of activities which are exercised within companies other than the Northern Electric Co.?

[English]

**Mr. Marquez:** Mr. Émard, if Northern Electric enters a business, we enter it because we believe it is going to be profitable for the system as a whole and I think the record shows that when the situation changes, as sometimes it does, we are not reluctant to change our minds and get out of it. I have given you one example of a subsidiary that was set up for an allied and responsible purpose and when that purpose no longer existed we, in due course, got rid of it.

I can give you another example. It has been mentioned that there was a time when Northern Electric was engaged in the distribution of what was called in this Committee "white goods"—major appliances. We got into major appliances—the distribution of major appliances—for what we considered to be very good and sound reasons. You must remember that we have been manufacturers of non-communication wires and cables since 1895. We never manufactured communication cables without non-communication cables.

This is a part of the way we started. In 1907 when we started our distribution business, the major customers of our non-communication wires and cables in those days were the power utilities and we had to set up sales offices, distributing warehouses and sales engineers across the country to call on our telecommunication customers and also to call on our power utility customers to sell cable.

Now, it is a commonly known phenomenon in the field of marketing that you increase the economy and you increase the efficiency of performance of your job if you increase the base on which the customer buys. If a salesman goes in to sell a customer a product and he sells \$100 worth of product, it costs you just as much for the paper and a great deal of the sales service as if you had sold him \$1,000. You, therefore, try to examine the requirements of that customer in allied fields. Consequently, as we were calling on power utilities to sell cable, it was quite obviously in the company's interest—and I would say in the national interest—to make sure that customer could buy as many things from us in allied fields as possible.

In those days, if you will recollect, it was the power utilities who were the major distributors of electrical appliances. If you wanted to buy a range, a refrigerator or a washer, it was the power utilities that sold it. They were "load building" in those days and Northern took on a variety of lines from manufacturers of these electrical appliances for sale to these power utilities. But as time went on and we got into the post-war period, these power utilities who had been customers for these appliances tended to move out of the field and the normal customer for these "white goods" became appliance dealers. This put a completely different complexion on the matter and we began to take a very critical look at this situation because, again, the original purpose for which the thing had been intended had disappeared and now the question was, "was this thing worth while staying in or not"?

In 1956 we came to the conclusion that it was no longer the kind of business that Northern Electric wanted to be involved in and we cut off \$17 million worth of appliance business a year because we felt this was not the kind of business that was likely to provide in the future the kind of return on investment we felt we needed.



• (10:40 a.m.)

We have done this sort of thing from time to time. Why any company would want to stay in a business which is unprofitable is beyond me. I can see no motive for it. If for no other reason, management pride forbids you to keep doing something that is a failure and where we have the power of discretion—and we do in fields which are allied to, but not dependent on, the communications field—if we reach the conclusion that this thing is no longer a paying proposition, that it is no longer going to make the kind of return on the capital invested and would be a drain on the communications field, we get out of it.

[Translation]

**Mr. Émard:** It was mentioned here, before the Committee, that you had exercised some undue pressure on persons or companies which you did not particularly like. I would like more light to be brought on this point.

[English]

**The Chairman:** Would you repeat that question, Mr. Émard.

[Translation]

**Mr. Émard:** It was mentioned before this Committee that the company had exerted certain undue pressure on persons or companies which displeased that same company.

[English]

**The Chairman:** To which company are you referring, Northern Electric or Bell?

**Mr. Émard:** Both, I think.

**The Chairman:** Mr. Marquez is only here to answer questions pertaining to Northern Electric.

[Translation]

**Mr. Émard:** Northern Electric has also played this game; notably so, for in the case of cables and wires certain undue pressure was exerted by Northern Electric.

It would seem that a number of competitors abstained from appearing before the Committee in the fear of what might happen to them.

[English]

**Mr. Marquez:** I can merely comment on this. It would seem to me when I look at Industrial Wire's performance in the last few years that the contrary seems to be the case;

that coming out into the open to lock horns, if you like, with these two heartless giants seems to be a pretty profitable expense. I would like to think that Northern Electric has had the kind of performance or results from the last few years that Industrial Wire has had.

**The Chairman:** You are doing it for a bigger piece of the market.

**Mr. Marquez:** However, I would like to add some information here that might tend to clarify a point. The impression was given back in 1960 when this first began that we were acting as a distributor for Industrial Wire. The fact of the matter, of course, is we were, and have been for 70 or 80 years, acting as distributors for our own wire. But throughout our 30-odd distributing houses in the field, from time to time either because of failure on the part of our factory to deliver in time or because one or other of our distributing houses might have misjudged the volume of sales, we find ourselves, as our competitors do, in a position, where we are out of stock in our warehouses, and it has been our practice for many years to pick up certain types of commonly used wire with the same specifications. The customer is really only concerned with availability and the fact that the stock is in the warehouse. We pick up wire from one or other of our competitors, Canada Wire, Industrial, Philips, and so on.

When this first attack was made, if you like, in 1960, we were picking up materials from Industrial as we were from others. Not by our yardsticks very great quantities of material as against a few million dollars of sales a year, but we bought from Industrial in 1960 about \$119,000 worth of wire.

When these statements were made originally I was running the sales division and my field people said: "What do we do now? Should we continue to buy wire from Industrial Wire?" And my instructions to them were: "Yes, do not change anything." In 1961 we bought \$151,000 worth of wire from him; and in 1962 \$167,000 worth, and it was not until he made his representation before the Board of Transport Commissioners and said that Bell Telephone had no legal right to own Northern Electric and that was thrown out that I went back to my zone managers and said: "Look, all right, there are lots of other people we can pick up wire from. After all it is our wire we are trying to sell and I see no reason we should continue to pick up wire

from Industrial Wire." So in 1963 his volume dropped to \$89,000 and in 1964 to \$9,000 and to my knowledge we are not picking up wire from Industrial any more.

Someone asked a question, if I may continue, about the C.P. Clare company. I do not know whether there is any relationship between C.P. Clare and Industrial but the implication was made here last week that there might be. We happen to buy a good deal of material from C.P. Clare. In 1960, \$83,000; in 1963, \$185,000 to date in 1967, \$235,000. They happen to make products that we need and use and if a company has a product we want and we need it and there is no other place to get it, we buy it there. I know of no instruction on the part of Northern Electric, certainly, that says: Look, for reasons of reprisals or punishment or some other reason, just do not do business with that guy. The only qualification we have in doing business with people is whether we think they can pay their bills.

[Translation]

**Mr. Émard:** Do you sell your products without discrimination at all to those who ask for them?

[English]

**Mr. Marquez:** Mr. Émard, we will sell our products to anyone who wishes to buy them. If we have reason to doubt the credit rating of a company we may ask them to pay cash on delivery. In the activities of our sales force, since selling effort is not an unlimited resource, we try to be discriminating to the extent that we try to put in our salesmen's time to the great extent possible on those customers who are likely to produce the biggest results. But if a customer has something that he wants to buy from us we will sell it to him.

[Translation]

**Mr. Émard:** Do you refuse to put your products at the disposal of those who would like to have them, provided, of course, that they are willing to produce payment for them?

[English]

**Mr. Marquez:** Yes, this is another interesting red herring. They are attempting to suggest that North Electric spends money on research, develops patents and that we do not make them available to people. In fact, we do not discriminate in the licensing of patents. We license our patents to anyone who is

prepared to make a reasonable deal on them and I might add, rather ironically, that one of Industrial Wire's subsidiaries, Lacle Industries, negotiated two years ago for one of our patents which happens to involve a product we make ourselves. He was licensed to use this patent at what we consider a very reasonable rate and I am sure he considers it a very reasonable rate too. So he asked for a patent. He was infringing one of our patents in the design of a buried cable terminal. He negotiated for it and he got the patent licence and there was not any argument; there was no reluctance; there was no question about it. This is what we would do with anyone.

[Translation]

**Mr. Émard:** On page 4 of your report, it is stated:

[English]

**The Chairman:** Mr. Émard, I hope this is your last question. I will come back to you because you have been going on at some length.

**Mr. Émard:** I have a couple of questions on this subject.

[Translation]

On page 4 of the annual report, it is stated that you spent \$25 million on research. This amount represents 6 per cent of your total revenue. I would like to know—I will put all my questions together if the Bell Telephone Co. of Canada subsidizes the research? Could you also tell me the amount of the federal government grant in this regard and if you feel that research is necessary?

[English]

**Mr. Marquez:** I will take these questions in reverse order if you like. When we do research, of course, to the best of our judgment we do it on products and in areas that we think are necessary. The federal government incentive, so far as Northern is concerned, is on the same basis as any other company; that is, it is related to the incremental amount in any particular year in capital or in expense and there is a new system, now as you know, which is based on a three-year moving average. Our incentive in 1966 was somewhere in the neighbourhood of \$4.5 million. That is that we got back, you might say, in terms of incentive. This only applies, of course, to the extent that our research expenditures continue to climb and this applies to any company.



• (10:50 a.m.)

The Telephone Company, to answer your first question, like any company ultimately has to recover its research by putting it into price, and our research cost eventually gets built into the price of the product we are going to sell in future. The problem with research is that you spend the money this year but you may not have a product until five years from now to put it into.

Now, so far as direct payment is concerned, we follow the practice in Canada that has been established in the United States whereby the fundamental research—that is, the research that is not carried out for specific product development—is paid for by The Bell Telephone Company.

**The Chairman:** A supplementary, Mr. Groos?

**Mr. Groos:** We have two government programs, one new and another that has been going on for a little time, which have to do with research and development. One is the PAIT program and the other is the IRDIA program. Does the Northern Electric avail itself of either of these?

**Mr. Marquez:** What is the second one?

**Mr. Groos:** The initials are PAIT.

**Mr. Marquez:** Yes. We have not used that.

**Mr. Groos:** What about IRDIA—the Industrial Research and Development program?

**Mr. Marquez:** The only program that we use—perhaps I should qualify this. There are odd occasions on which the Government will approach us and say: “We want you to do research on this,” and they will pay for it.

**The Chairman:** Such as the satellite?

**Mr. Marquez:** The DRTE.

**The Chairman:** Yes; DOT.

**Mr. Marquez:** But in terms of our own research, the only way that we participate is on the good plan, in which you relate what you spend in any particular year to the average figure for the preceding three years, and you are allowed a grant, if you like, related to the increment.

**Mr. Groos:** Yes; this is now called IRDIA.

**Mr. Marquez:** I cannot keep up with these initials.

**Mr. Groos:** So you do make this program available to...

**Mr. Marquez:** Yes, we do use this program.

**Mr. Groos:** What has been the impact of these government programs on stimulating research activity in Northern Electric?

**Mr. Marquez:** This is not an easy question to answer. We are involved in research and I think we would have to be involved in it whether there were a government incentive program or not. What the government incentive has done is to make the very necessary research that we have had to engage income somewhat more within our resource capabilities than they otherwise would.

**Mr. Groos:** In other words, the IRDIA program, or old GIRD program, has been of benefit to...

**Mr. Marquez:** Undoubtedly it has.

**Mr. Groos:** ...the telecommunications industry as a whole?

**Mr. Marquez:** I would say to industry in Canada, as a whole. We are rather inclined to the opinion that the kind of recommendation that the Economic Council has made, which says that whatever plan the government has should be long-term and should not be related to incremental additions but to some base, even though that percentage would be lower, would be a better one. The problem that any company faces is that if it builds up research and then levels it out then of course it loses all advantage. There is no more incentive if you stop growing in the research field.

**Mr. Groos:** Is that correct? That may have been so under the GIRD program, but is it so under the IRDIA program?

**Mr. Marquez:** To the best of my knowledge, it is. The current program of incentive is related to increase and is differentiated in two areas. Any capital increase immediately qualifies and current expenditure must represent an increase over the average of the preceding 3 years.

**The Chairman:** Perhaps I might interrupt at this point. Mr. Lester stated before this Committee, that Northern Electric was currently spending approximately \$30 million annually on research. I think that was the figure that was used. Relative to what Mr. Groos is saying, then, how much of this research spending is attributable to direct or



indirect financial assistance by the government?

**Mr. Marquez:** I said that the incentive amount in 1966 was about \$4½ million, and it probably will be somewhat less...

**The Chairman:** That is included in this \$30 million figure?

**Mr. Marquez:** It would reduce the \$30 million.

**The Chairman:** It would reduce that figure?

**Mr. Marquez:** Yes. That \$30 million figure also includes an amount that qualifies technically as research but which we apply to existing products and processes for cost-reduction purposes. Consequently, we feel that it would be in our interest to do this whether there was any incentive or not. This is just good business...

**The Chairman:** But the \$30 million figure is reduced by the amount of direct or indirect financial grants?

**Mr. Marquez:** Yes, it is.

**The Chairman:** Mr. Émard, the last question.

[Translation]

**Mr. Émard:** Mr. Zimmerman said that the telephone users would indirectly subsidize the research on non-telephonic projects or projects not concerning the telephone as such.

[English]

**Mr. Marquez:** You are asking how much research we do on...?

[Translation]

**Mr. Émard:** I will repeat what I said: Mr. Zimmerman said a week ago, that the users of telephone would be paying for research done in a field, other than that of the telephone, and which will be carried on in your own laboratory. Is that true?

[English]

**Mr. Marquez:** First of all, the research that we do on non-communication products is comparatively small. We do some research into plastics that have to do with the insulation of cables of all kinds and which apply to non-communication cables as well as to communication cables. To answer your question specifically, to the extent that we engage in

some research on non-communication cable that would be built into the price of non-communication cable.

**The Chairman:** Are you saying that it is not built into the price of communication cables for, say, the telephone customer of Bell?

**Mr. Marquez:** To the extent that it makes no contribution to that, yes, Mr. Macaluso.

[Translation]

**Mr. Émard:** Mr. Chairman, could you add my name to the list of those who will ask questions?

[English]

**The Chairman:** Mr. Saltzman.

**Mr. Saltzman:** You stated that on occasion you had bought cable from other companies to fill in your own market. To what extent do you buy products from other firms and market them under your brand name?

**Mr. Marquez:** In our distribution field, Mr. Saltzman, we sell the products of some 350 Canadian manufacturers who make a wide variety of standard products which have to be carried by somebody in stock, and for whom we provide a distribution service. If we were not there they would either have to set up a sales organization themselves, or find some other channel of distribution. I am talking now about products such as safety switches, outlet boxes, and, as Mr. Zimmerman has said, screwdrivers and things of this kind. There are several thousand electrical contractors spread all over Canada, the manufacturers of this type of product, and sheer economics dictates that they cannot each set up independently sales, warehousing and stocking organizations. They sell through distributors. The majority of them sell through independent distributors scattered around the country, and also through one or other of the three national distributors, Canadian General Electric, Canadian Westinghouse or Northern Electric, who offer a parallel service.

Northern is rather distinctive in this field in that we offer a distribution service in which none of our products, with the exception of wire—in which we sell only our own—is competitive with those that our suppliers sell. This differs from the other two national distributors who themselves are manufacturers in many of the fields in which these small companies are engaged to perhaps a more specialized degree. For example, the Square D company make many electrical

devices, such as starting switches and control apparatus of one kind or another. We sell the Square D product across Canada. We are not the only ones who sell it; many others do; but we offer a service to them, and, as I said, to some 350 other Canadian manufacturers, to enable them to have their products reach their market economically. We buy the product and resell it.

**Mr. Saltsman:** When you sell products of that type are they sold with the manufacturer's name on them or are they sold bearing your name?

**Mr. Marquez:** They are always sold with the manufacturer's name on.

**Mr. Saltsman:** You do not make a private label brand of it?

**Mr. Marquez:** No.

**Mr. Saltsman:** I think the Combines legislation was amended in 1962 to permit companies to join together for purposes of export only. Have you operated under that legislation? Have you joined with other Canadian companies for export purposes?

**Mr. Marquez:** We have, but not successfully. We have been in a job with Montreal Engineering providing part of the service—the management service. We have explored the possibility on two or three occasions of going in jointly with RCA but, up to now, the jobs in which we have been engaged in consortium, including Canadian companies, have not been successful. We have been successful on our own.

**Mr. Saltsman:** What are the reasons for the absence of success?

**Mr. Marquez:** Mainly, because most of the jobs that we bid on are jobs in which we are capable of supplying the range of products on which we are prepared to bid. Let me digress for one minute, Mr. Saltsman, to say that we have received a fairly substantial order recently which is connected with, what is called the NAGE system in Europe. This is a military communications network somewhat comparable with the SAGE system in Canada. We went into that in a consortium which was led by the Hughes Company of the United States but this was of those jobs which was serving NATO requirements in which the consortium—and there were three consortia bidding on this—had to meet the technical requirements of the specifications

but the work had to be allocated according to the balance of payments.

That is, if Canada put up X million dollars, Canadian companies had to get X million dollars worth of business and there were three consortia bidding on the job, each of which, of course, had a Canadian leg to it. The one that we happened to be with was successful.

**Mr. Saltsman:** You have written on this subject. Do you feel that the Combines legislation should be amended to permit Canadian companies to operate this way domestically, to have joint bidding and to work together in an attempt to rationalize the industry, to get longer runs for their clients, to get more specialization within the manufacturing industry?

**Mr. Marquez:** If you will permit me, Mr. Saltsman, I would like to answer that question in my own way. What I have said and will continue to say is that we live in a world in which, no matter what the temporary setbacks are, all the long-term trends are in the direction of the reduction and, perhaps, in some instances, the elimination of barriers to trade. Under these circumstances, when you live behind fairly high protective tariff barriers such as we have in Canada and the United States, anti-trust regulation or combines legislation, as we call it, becomes a necessity in order to ensure internal competition.

When the situation changes and these barriers to external competition tend to be reduced, then we have to re-examine the situation because now, "willy-nilly", we are going to be exposed to much more severe foreign competition and we could find ourselves, if we do not recognize this, in a position in which we are not able to compete.

All you have to do is to take a look at what is going on in Britain and France and you see mergers taking place every day. These are going to be some pretty big people, mergers that are taking place, not contrary to the will of the government but at the recommendation of the government.

You may have read in the newspapers recently that British General Electric has merged with A.E.I. I gather from what I read in the newspapers that A.E.I. which are a pretty big communications firm in Britain were somewhat reluctant partners. But this was recommended by the British governmental rationalizations board, or whatever name is they have for it, and this is going to



produce a pretty powerful competitive weapon in the field in which it competes. These are the people that the Canadian companies, who are going to be living in the same world, are going to have to compete with. My view merely is that we have to take a good hard look at the legislation that we have developed to protect the public interest to make sure that in the future we are still looking for the public interest.

• (11:05 a.m.)

**Mr. Saltsman:** If I may interpret you in this way, your view then is as trade barriers are removed and as the world moves towards freer trade the needs for combines legislation will be lessened?

**Mr. Marquez:** I think this is a fair statement, yes.

**Mr. Saltsman:** What suggestions could you make to prevent, even under those circumstances, you are assuming that international competition would take care of the problem. What suggestions would you make to prevent international cartels from taking over?

**Mr. Marquez:** I cannot say, at this particular stage, Mr. Saltsman, that I have any practical suggestions. What I am saying is that the world in which we live is changing and that we must be very careful not to assume that criteria, premises on which we operated 15, 20 or 30 years ago will necessarily continue to hold good. I think this is a dynamic situation and that we have to be prepared to deal with it dynamically. The thing that might be good in 1967, may, another set of problems may occur which will require something else to be done in 1977. I am not sure what those problems would be. I would like to feel that the situation is a fluid one and that we make ourselves as adaptable as possible.

**Mr. Saltsman:** Do you think there is any possibility of, under proper circumstances, if trade restrictions were removed, if we move towards freer trade of going to the electrical manufacturing industry and getting them to do this rationalization, to work out the most productive way of producing the goods that they now produce?

**Mr. Marquez:** Whether the situation would develop the way you describe it or not, Mr. Saltsman, what I think I am saying is that we need, one way or another, a good deal more rationalization and specialization in Canada. We are not, at the present time,

making very economic use of our resources. We have, in fact, tried to build in Canada, largely because—and this has been good for Canada in its initial stages—we have developed as subsidiaries of American companies, we have brought into a small country the same kind of cross-section of products which exist in the United States and which the United States can support. I think we have to be a lot more specialized, and economical in the use of our resources. Certainly, I know in Northern Electric we have and this is one of the things that we are trying to do. We are trying to move in the direction of recognizing that there are a great many other people in Canada who have capabilities of which we must take advantage and use, rather than assuming as perhaps to a very great degree we have tended to assume in the past, that we are capable of doing it all. I think we have got to spread. Even now we use many thousands of subcontractors, I think we have to use more because I think there are many skills available in Canada and it is important that we use them without duplicating them to an undue degree.

**Mr. Groos:** A supplementary question, Mr. Chairman. Could the witness give us an idea of the wage differential that exists today between the wages paid in the United States to electrical workers in the electronics or telecommunications industry and the wages paid in Canada?

**Mr. Marquez:** I would just be guessing but I suspect it is somewhere in the neighbourhood of 20 per cent. I just do not happen to have that information at my finger tips.

**Mr. Saltsman:** I would like to ask you a couple of questions relating to the time you were in the white goods business. When you were in that field where did you obtain your supply?

**Mr. Marquez:** Mr. Saltsman, I am sorry, I missed the early part of your question.

**Mr. Saltsman:** I have a couple of questions regarding the time you were in the white goods field. When you were in that business, where did you obtain your supply? How did you obtain your supply of white goods? Did you make it yourself or did you buy it from others?

• (11:10 a.m.)

**Mr. Marquez:** No. The only electrical appliance we ever manufactured at Northern was radios and we made radios because, again,



back in the early days of telecommunications, the radio was a sort of an outgrowth of telecommunications development. We were the first people in Canada to make, what is still known today as the peanut tube. And we made radios for a short time but shortly after the war we discontinued radios. We obtained our appliances whether they were ranges or washing machines or what have you from a variety of sources. At one time we obtained our ranges from the Gurney people in Montreal. We obtained our refrigerators from a subsidiary or a brand name of Kelvinator that they called Leonard, our washing machines at one time from the Connor people. Eventually towards the end of our operation, that is, within the three or four years before we went out of appliances, we were selling Sylvania radios and Sylvania television sets and we were selling Leonard refrigerators, washing machines, ranges and dryers. These would about cover it; so that it would boil down eventually to two major sources of supply.

**Mr. Saltzman:** When you were doing it in the heyday of that particular kind of operation, when the Public Utilities Commission were selling white goods, did you find that your products were being sold cheaper than were comparable products in other merchandizing fields? Were the Public Utilities Commission able to sell under better terms?

**Mr. Marquez:** They were the only people who were selling in those days; and the only reason for their selling those products was that they were load-building. Perhaps you can think back to the time—and this goes back many years—when a power company would actually sell a person an electric range on a rental basis. They were interested in making sure that the power was used, and their activity in the appliance field was primarily directed towards developing consumer acceptance of products which consume power.

**The Chairman:** They are still doing that.

**Mr. Saltzman:** Yes; but there is an overlap.

**Mr. Marquez:** The only area in which power companies are still in that field, to my knowledge, is in the range of hot water heaters. Many of the power companies will actually rent you a hot water heater rather than have you buy one yourself. But the power companies, by and large, are not in the field of major appliances such as ranges, dryers,

and so forth. There are exceptions, but they are not...

**Mr. Saltzman:** Do you foresee the possibility of your firm going back into this business, since you regard yourself as a distributor for many products that you do not make yourself?

**Mr. Marquez:** No.

**Mr. Saltzman:** You do not foresee your going back into white goods?

**Mr. Marquez:** You do not turn back the clock. We were in that field because in the early stages of the introduction of these appliances the power companies, who were our customers happened, for a primary reason, to be in that market. But this is not going to recur. "Never" is a long word, Mr. Saltzman, but I would say it is extremely unlikely.

In fact, all the pressures on Northern Electric today are to narrow down our field of activity and interest, simply because our basic field of telecommunications is growing at such a tremendous rate that it is all we can do to muster our resources to keep up with it. Even within that field we have had to become increasingly selective. One of the reasons for our moving into the international market is to broaden our market diversity at the same time that we are narrowing our product diversity.

**Mr. Saltzman:** Just a final question, more for clarification than anything else. I was interested in what I thought were your reasons for doing research in Canada. If I interpreted you correctly, you said that it resulted from a decision made in the United States; that the research that you were obtaining there was no longer available on the same terms, and that as a result of a decision in the United States Canada has been fortunate in attaining more research activity?

**Mr. Marquez:** Well, let me be clear. I would say that without any doubt it would have been good for Canada, not merely for Northern Electric or any Canadian company, to have done some original development on its own instead of being completely dependent on foreign technology.

The problem that has faced many companies, including ours, is that when foreign technology is available on very economical terms there is very little stimulus to step out and spend the money and take the risk of doing some development on your own. We

are no different from anyone else. A set of circumstances, prompted by the Consent Decree, pushed us, you might say, into the necessity for doing some development ourselves. It is conceivable that had this not occurred we might have taken longer to do it. In the long run this has been good for Northern, and it will be good for Canada, because although availability of foreign technology has been a good sound base on which Canada could build, we must make unique contributions of our own, if for no other reason than to have some bargaining power in the international field. In the trading, if you like, in technology you are in a much stronger position when you have something to offer, as well as merely something to get.

Traditionally, Canada has always been in the position of receiving technology. We have to get more and more into the position in which we are capable of offering something. We are capable of offering it. Canadians who go down to the United States become very renowned in the field of technology. We have to give them the challenge here in Canada.

**Mr. Saltzman:** Because you are not the kind of person who is averse to stating an opinion I wish to ask you a question which strictly calls for an opinion. You may or may not wish to answer it. You pointed out the importance of indigenous research to this country. Would you be willing to state your opinion on whether the Canadian government should take positive measures to ensure that a percentage of all research is done in this country by all our companies, rather than wait for a windfall as a result of a foreign government's decision?

**Mr. Marquez:** Again, I am not quite sure that I understand the question. Surely the evidence is that in the last few years the Canadian Government has recognized, in one way or another, the importance of research in Canada and has taken some measures. Whether these measures are adequate, or are the best, is, of course, like everything else, always debatable.

I suspect that the need for Canadian industry to develop, in certain specific areas, a technology of its own—unique, original and creative—has been recognized by the Government. Some attempts, along one line or another, have been, and are being, made to continue to stimulate this. I am not sure that Canadian industry has yet reacted sufficiently. It requires effort; it requires resources; it involves risk.

I am not suggesting that Canadian industry should attempt to do all technology for itself. This is ridiculous; it would be uneconomic. But there are areas in almost every field in which unique contributions can be made, particularly by being cued to the demands of the Canadian market and those markets which Canadian companies attempt to go after. This then becomes a bargainable commodity.

I am not sure that I am answering your question, Mr. Saltzman.

**Mr. Saltzman:** To some extent, and very diplomatically.

**The Chairman:** This raises another question, in addition to the one Mr. Saltzman asked. Since there is this service contract between AT&T and Bell, and between Bell Telephone and Bell Laboratories, and since the Bell Telephone Company adopts this new equipment and have these patent rights and general information then the normal course is that these are then acquired by Northern in order to manufacture this type of equipment, either for Western Electric, Bell Laboratories, or AT&T? Would it be the case that eventually it would come into the Northern Electric manufacturing line?

It brings to my mind that, if that is so, the relationship between Bell and Northern Electric, in the form of share-ownership, becomes, I would think, less essential, does it not? You really could take on a form of customer-supplier relationship? This is really a query.

• (11:20 a.m.)

**Mr. Marquez:** I understand, Mr. Macaluso. You must distinguish three steps, really, in the ability to manufacture a product that is of someone else's design. One is the right to make it, which is a patent licence; another is what you might call technical information, which is a set of drawings and dimensions; the third, and nowadays the most important, is the know-how. You can get all the drawings in the world and have the right to manufacture and still not be able to make it. Communications equipment is becoming so sophisticated today, that you have to have know-how. It so happens that this is what is no longer available to us from the United States; the know-how is not available, we have to learn that ourselves.

Now, as to whether the situation is one in which the capability of supplying good communication equipment in Canada to subscri-



bers could be carried out successfully nowadays, with a change in the relationship between Bell and Northern: On the contrary, I suspect that if it was important in the past for thorough and complete integration between the design arm, the manufacturing arm, and the operational arm, it will be doubly important in the future because of the complexity of the equipment. If I may make one point, someone asked the question at one of the earlier sittings of this Committee, about the difference between the situation, say, in the automobile industry and the telecommunications industry. When you buy a new automobile next year the only question you have to ask yourself really is whether it will fit in your garage or not.

**Mr. Groos:** That is not the only question.

**Mr. Marquez:** Well, it may be one of the important questions.

**The Chairman:** It is the cost that bothers me; I do not know about you.

**Mr. Marquez:** I am talking about the technical point of view. But the point I am making in the telecommunications field is that when we make equipment today—switching equipment—it not only has to serve the requirements of the operating company and its subscribers today, it has to be capable of integrating with the equipment that we put in 40 years ago. It also has to be capable of being integrated with equipment that we are likely to put in 40 years from now. There has to be a continuity. You do not put in a new electronic exchange, as we have a year ago in Montreal, and set it up all by itself. It has to integrate with the equipment that already exists; otherwise it serves no purpose.

**The Chairman:** You would still have this under a service contract with Bell, would you not? What I am saying is that a service contract would still be there between Bell and Northern.

**Mr. Marquez:** You are assuming that the situation between the two companies would be the same, but without the ownership.

**The Chairman:** Right.

**Mr. Marquez:** I do not know.

**The Chairman:** Come now, you must have some thoughts on it, Mr. Marquez.

**Mr. Marquez:** Well, let me say that the record shows that in the world where there

has been integration—and that means ownership—between the operating company, the design authority, and the manufacturer, the telecommunications system has been, by comparison with other parts of the world, very good. In North America you have this condition existing in the Bell system and the general telephone system and, of course, in Canada in The Bell of Canada and the Northern Electric system. Any one who has been off the North American continent knows there is not really any comparison in the telephone system.

**The Chairman:** No one is arguing that point. What I am really getting down to is to relationship, since it is a different service contract, and since I would assume that the patents of AT&T and Western Electric would be available to Northern Electric on the same sort of a service deal between Bell Telephone and these companies, then really there would not still be a customer-supplier relationship between Northern and The Bell Telephone Company on the same basis? You would still have that 50 per cent of the market, I would assume anyway, and you would still have all the technical know-how available to you.

**Mr. Marquez:** I really cannot offer any intelligent comment on that. I suppose, theoretically what you are saying is; is it not possible to have an arrangement between Bell and Northern which is exactly the same as it is today without the ownership?

**The Chairman:** Without, as someone said, that one wire going one way between Bell and Northern Electric.

**Mr. Marquez:** Oh, the wire is merely a...

**The Chairman:** It is a legal problem; I realize that.

**Mr. Marquez:** Yes, this is something that dated back to a charter that was written in 1882, of course.

**The Chairman:** Let us not go back to charters, let us get back to that wire.

**Mr. Bell (Saint John-Albert):** May I ask a supplementary?

**The Chairman:** Yes, Mr. Bell.

**Mr. Bell (Saint John-Albert):** In this same context, what will prevent Northern from going into many other subsidiary companies of which, I understand, they have three now? Industrial Wire have fears in this regard and I think many of us share them.



Under this new legislation what will prevent Northern from going into 100 different subsidiaries?

**The Chairman:** You mean Bell.

**Mr. Bell (Saint John-Albert):** Well, Bell through Northern; but I am speaking now of Northern because, as I understand it, Northern have three subsidiaries themselves.

**Mr. Marquez:** Yes, I told you of Northern Electric Caribbean, Northern Electric Turkey, and I told you that Norel Realities has been abandoned, and Dominion Sound is in process of being abandoned. But I would like to draw your attention to the fact that any subsidiary that Northern has historically engaged in had a basic foundation that was associated with the basic field we are in. We have never attempted to move out into fields completely different, for the very obvious reason that our primary purpose is to serve the interests of the telecommunications industry. We become involved in other areas to the extent that they are contiguous with and support and expand the very limited resources that we have and make their use more economic.

We certainly are not in the same kind of context as a company whose only purpose in life is, let us say, to make a return on its investment for its shareholders, and it might decide to go into the food business, or something of the kind. All the pressures on us, coming from the telecommunications field, tend to keep us more and more strongly in that field, because we just do not have the resources, even if we wanted to, to spread outside.

You might say, "What about non-communication wires and cables; why are you in that field?" Well, we were as I said earlier manufacturing non-communication wires and cables as far back as 1895, because, in fact, there is no difference, manufacturing-wise, between communication cables and non-communication cables. To say to a manufacturer that he must make one without the other is like saying to a dairy farmer, "You can produce milk, but you cannot produce cream", because in manufacturing cable, you start off with wire bar and you turn it into rod, and you draw it into wire, and you insulate it, and you strand it, and you jacket it, and you do this on the same machines whether you are going to sell the cable for communication purposes or otherwise.

And in fact, as a matter of interest—and I have taken some trouble to examine this—of

all the manufacturers in the world that I have been able to examine, who make communication cables, all of them, with one exception, also make non-communication wires and cables. That one exception is Western Electric Company.

**The Chairman:** That would be tend to make it a more efficient operation, economy-wise, I would think, would it not?

**Mr. Marquez:** Oh, certainly it does. It means that you cannot buy a half of a machine and when you are spending \$250,000 for a strander, you need it whether you are going to use it to 25 per cent capacity, or to a 100 per cent. It is in our interest, and we think in the national interest, to make sure that those facilities and resources that we have are being used to maximum capacity.

**Mr. Rock:** That is one question I do not have to ask.

**The Chairman:** Mr. Saltzman.

**Mr. Saltzman:** Do you obtain any research from government or university sources? I mean the research that is being done in government labs or universities; do you use any of that research?

**The Chairman:** Do you mean the benefit of research?

**Mr. Saltzman:** Yes, the benefit of research.

**Mr. Marquez:** I cannot answer your question off-hand. Let me say that we are aware of what is going on at NRC, we work very closely with them as they are aware of what we are doing, and to the extent that they might be producing certain things that we would use we would have no hesitation in trying to get the right to use them, and this goes anywhere. As happens in any company, there are people who develop ideas in one area of research or another which they think might be useful to another company. They come and offer them, you examine to see whether the thing has a useful purpose, and if it has, then you undertake the negotiations to try to get licensed, but nothing more specific than that, Mr. Saltzman.

● (11:30 a.m.)

**Mr. Saltzman:** You cannot call a specific instance where you had used some research developed by NRC?

**Mr. Marquez:** No, not off-hand.

**The Chairman:** Mr. Deachman.

**Mr. Deachman:** Sir, at some time this morning, you said that you manufactured a million sets a year; that is the round figure I think you used.

**Mr. Marquez:** Yes.

**Mr. Deachman:** Then you said that half of those go to Bell?

**Mr. Marquez:** Yes.

**Mr. Deachman:** I am curious about the other half. Can you tell us into what market the other half would go?

**Mr. Marquez:** Yes, we sell telephone sets, of course, to the extent that we can sell them competitively to all the other telephone utilities in Canada—the various provincial utilities from the east coast to the west coast including, to some extent, B.C. Telephone which happens to be a subsidiary of the General Telephone Company. And we sell some telephones abroad as well, in the United States and elsewhere, Mr. Deachman.

**Mr. Deachman:** I understand that Bell Telephone buys its sets exclusively from you; is that correct?

**Mr. Marquez:** To the best of my knowledge, at the present time they do.

**Mr. Deachman:** Bell Telephone buys sets exclusively from you. Now, Bell has a substantial interest in some other telephone companies such as Avalon, New Brunswick, Maritime Telephone, Island Telephone and Northern Telephone. Out of the half million sets that are sold outside of Bell are you a supplier to those companies as well?

**Mr. Marquez:** Yes, we are a supplier on a competitive basis to...

**Mr. Deachman:** Are you a supplier to any of those companies that buy telephone sets exclusively from The Bell?

**Mr. Marquez:** You mean from Northern?

**Mr. Deachman:** Excuse me, from Northern.

**Mr. Marquez:** Yes.

**Mr. Deachman:** Are any of those buying exclusively from Northern?

**Mr. Marquez:** I think, Mr. Deachman, and I am just speaking offhand now, that at the present time—I am going back for some years—New Brunswick is buying most of its

telephone sets from us. In fact we have had a repair service down in Saint John, New Brunswick for many years to repair their telephone sets. But generally speaking, telephone companies buy their telephone sets where they feel they get the best deal, where they get the best product and where they can standardize on the component parts of the telephone set. We have a competitor in Canada now, the IT&T, who make a telephone set that is essentially the same as ours. They make it under licence from Western Electric. They have three small factories in the western provinces and they are selling a fair number of telephone sets there.

**Mr. Deachman:** But in the case of Bell we are dealing with an arrangement for the exclusive purchase of your telephones and I am wondering whether or not there is...

**Mr. Marquez:** Mr. Deachman, there is no arrangement with The Bell for the exclusive purchase of our telephones. The arrangement we have with The Bell at the present time, the so-called supply contract, says that if we sell to Bell we sell under certain conditions but there is no pressure on The Bell to buy from us. They happen to at the present time but as I mentioned a little earlier...

**The Chairman:** That was my point before; really the share ownership is another thing altogether. You can still operate under that supply package. But anyway I will let you answer that.

**Mr. Marquez:** The point I was going to make is that in the last year Bell decided to buy a great many of its PBX's from the Ericsson company. Now it is conceivable—it has not happened—but it is conceivable that the Telephone Company could decide to buy part of it, its telephone sets from someone else. They have not done this. The only point I am trying to make is that there is no legal obligation on the part of the Telephone Company to buy telephone sets from us.

**Mr. Deachman:** Well, is it not a fact that Bell Telephone has consistently bought its telephone sets exclusively from Northern?

**Mr. Marquez:** Right.

**The Chairman:** May I ask a supplementary on that, Mr. Deachman, please? Can you provide this Committee, Mr. Marquez—probably you will have to send it in to us—the percentage of sales that you make, say, to Avalon of New Brunswick, Maritime, Island and Northern?

**Mr. Marquez:** The percentage of what?

**The Chairman:** The products that you sell to these telephone companies which are Bell's subsidiaries, or in which Bell has a substantial interest.

**Mr. Marquez:** What you are really asking me is what proportion of their telephone sets does Avalon buy from Northern?

**The Chairman:** What proportion of their...

**Mr. Marquez:** That is a question that Avalon should answer.

**The Chairman:** You may be right. We could ask a few telephone companies to come here.

**Mr. Deachman:** With respect, Mr. Chairman, we are leaning away from the line of questioning that I want to pursue and I particularly want to know if there is any other source of telephones available to the companies associated with Bell Telephone in which Bell has a substantial interest from which they are purchasing in any quantity?

**Mr. Marquez:** You have asked a two-part question and I will answer both. First of all, there are several other telephones available.

**Mr. Deachman:** Yes, but which they are purchasing?

**Mr. Marquez:** I do not know to what extent they purchase these other telephones, Mr. Deachman.

**Mr. Deachman:** Well, let me put it this way: You have a pretty good idea how many telephones, let us say, Maritime Telephone or Northern Telephone would require in a year; their total demand for telephones?

**Mr. Marquez:** We would have a pretty good idea; I do not have it offhand.

**Mr. Deachman:** And you know exactly how many you think you sell standard, so you do know what percentage of their total telephone requirements Northern Electric would supply?

**Mr. Marquez:** We would have a pretty good idea, yes, Mr. Deachman.

**Mr. Deachman:** You could come very close to it?

**Mr. Marquez:** Yes.

**Mr. Deachman:** Let us take a telephone company in which Bell Telephone has acquired an interest in relatively recent years. For example, let us take Avalon Telephone Company in Newfoundland. I think the incorporation was in 1962 according to the figures I looked up. What has been the history of your company in sales to that company? For example, were they purchasers of telephone equipment from sources other than Northern?

**Mr. Marquez:** Yes, they were importing most of their telephone equipment, or a good deal of it, prior to acquisition by Bell.

**Mr. Deachman:** They were importing that from where?

**Mr. Marquez:** From Britain.

**Mr. Deachman:** From Great Britain. And since its acquisition by Bell have your sales of telephone equipment to that company substantially increased?

**Mr. Marquez:** I would say, yes, they have.

**Mr. Deachman:** How about the New Brunswick Telephone Company? What has been the history of equipment purchasing with New Brunswick before Bell's interest in it and after?

**Mr. Marquez:** They have always been major customers of ours and I do not think there has been any perceptible difference since Bell acquired control of New Brunswick.

**Mr. Deachman:** How about the Island Telephone Company serving Prince Edward Island?

**Mr. Marquez:** Similarly.

**Mr. Deachman:** Similar. You have always been a seller of equipment to that company...

**Mr. Marquez:** We are selling equipment, yes.

**Mr. Deachman:** ... and continue to do so.

How about Northern Telephone Company in Northern Ontario?

**Mr. Marquez:** Northern Telephone has always been a customer of ours. Precisely what difference has transpired since Bell obtained an interest, Mr. Deachman, I simply do not know. I do not think there has been any marked change.



**Mr. Deachman:** In other words, are you prepared to say that with the exception of the Avalon Telephone Company of Newfoundland, which was a substantial purchaser of equipment from abroad, this is really the only instance of a substantial change in sales since the acquisition of a substantial interest in it by Bell?

**Mr. Marquez:** Yes. I might add incidentally, too, Mr. Deachman, just on the other side of the question, that the Quebec Telephone Company which is a recent acquisition of General Telephone continues to be a major buyer of material from Northern Electric. We simply happen to have a product that the customer needs.

**Mr. Deachman:** This morning you said that you sold telephone sets—I believe you said you “sold”—to the Bell at a preferred price; is that correct?

**Mr. Marquez:** Right.

**Mr. Deachman:** Do any of these telephone companies with which Bell is associated also receive a preferred price?

**Mr. Marquez:** Wholly-owned subsidiaries of the Bell do. Avalon does.

**Mr. Deachman:** New Brunswick?

• (11:40 a.m.)

**Mr. Marquez:** I am not sure what the arrangement is with New Brunswick at the moment. I think it is a price level, Mr. Deachman. I am not trying to evade the question; I think it is at a level somewhere between what we call our general trade level and the Bell price level.

**Mr. Deachman:** And Maritime Telegraph and Telephone?

**The Chairman:** You could provide us with the figures showing the percentage increase before acquisition and after acquisition of these companies.

**Mr. Marquez:** Bear in mind that when you talk about increases, how much you sell to a telephone company in any particular year has to be related to its construction budget. You know, you can sell more or less in one particular year but I am sure information of that kind could be made available.

**Mr. Deachman:** Now, of the half million telephones that are sold to sources other than

Bell Telephone, what portion would be sold to those companies in which Bell holds an interest?

**Mr. Marquez:** Offhand I do not know but I would say that not necessarily a very large proportion. We sell a good many of our sets—75,000 telephone sets, for example—in the United States.

**Mr. Deachman:** Of a half million, you would sell 75,000 in the United States. That would leave 425,000 outside the Bell system. Where would some other big blocks of those sets go?

**Mr. Marquez:** Costa Rica.

**Mr. Deachman:** How many?

**Mr. Marquez:** Manitoba Telephone system, Alberta government telephones.

**Mr. Deachman:** How many would go out into the prairies where Bell has no interest?

**Mr. Marquez:** I just do not have those figures at hand, but a fair number of them, Mr. Deachman. Saskatchewan is still buying telephones from us. Bear in mind that in the last year of two IT & T, one of our competitors, set up factories, three little factories—one in Saskatchewan, one in Alberta, one in Manitoba. There is a fair amount of pressure for quite obvious reasons on the local telephone authority to buy at least some of its telephone sets from the local manufacturer.

**Mr. Deachman:** Mr. Chairman, I have one other question that I want to ask and that is: you have mentioned this morning that you have a tariff of approximately 20 per cent protecting the industry. What do you think would happen to your company—and this is, of course, a hypothetical question, but one which you may have to meet one day—if that tariff were cut, say, to 10 per cent?

**Mr. Marquez:** Let me answer your question indirectly. We are for example, selling telephone sets, and cable, and some switching systems in the United States now and, consequently, a zero tariff would not bother us at all because we are going in over a 17½ per cent duty in the United States which means that our costs and selling prices are considerably lower than those in the United States.

If I may give you some specific examples: an ordinary black telephone set such as anyone of us has in his house sells in the United States to a Bell System company, which procures its material from Western Electric, for

about \$11.35 Canadian. This is about \$10.50 American. Bell of Canada, for that same telephone set procured from Northern Electric, taking out the sales tax which tends to confuse the issue, pays about \$13.40.

**Mr. Deachman:** What is that figure again?

**Mr. Marquez:** About \$13.40.

**Mr. Deachman:** Yes...

**Mr. Marquez:** Any other telephone company in Canada—the smallest telephone company you care to name in Canada—can buy that same telephone set from us for about \$16.12. Do you have any idea what telephone companies in the United States outside of the Bell system—and there are 20 million of them—have to pay for a telephone set? At the present time they are paying \$21.35 for a telephone set and three years ago they were paying about \$35 for it. It is an interesting situation that an American subsidiary operating in Canada frequently finds itself having to sell its telephone sets cheaper than its parent company in the United States. Of course, this is the kind of situation where we can go in over a duty and sell quite profitably in the United States.

**Mr. Deachman:** Is there any reaction from the Americans with regard to your incursions into the United States market?

**Mr. Marquez:** Oh, yes; they are not too happy about it. We have to deal with that market, you might say, with some discretion because if you press the situation too hard some of your competitors down there—you know—try to find... After all, it is only common practice that they are not too happy to have a foreign company come in and sell products in their country.

**Mr. Deachman:** What about licensing regulations that act as a deterrent to the sale or export of telephones? What happens when you export equipment to the United States? What kind of licensing and restrictions is that subject to that prevent you from entering foreign markets?

**Mr. Marquez:** There are no licensing arrangements and we have to be careful to sell at prices which will not subject us to dumping dangers in the United States. But, there are no special problems, Mr. Deachman.

**Mr. Deachman:** What about the possibilities of imports from Japan? Is there any

indication that the Japanese are getting into the supplying of telecommunications equipment?

**Mr. Marquez:** The Japanese are very big people in the telephone industry. So far I think our major advantage is that the kind of product the Japanese have offered in Canada has not come up to the kind of standards the Canadian market demands. We have not yet suffered too severe competition from Japanese imports in the telecommunications field. But this could be around the corner.

**Mr. Deachman:** What about Swedish equipment?

**Mr. Marquez:** Oh, yes. Swedish equipment is extremely good. There are many telephone companies in Canada who have bought Ericsson equipment both in the form of telephone sets and private branch exchanges and, in some instances, of larger exchanges.

**Mr. Deachman:** Are you competitive with them in Canada?

**Mr. Marquez:** We are competitive with them in Canada but the problem, of course, always is a question not only of price *per se*, but in terms of the particular features or technical design of the product at the particular time. They do have some products right now, for example, in the PBX field, and I would say that for the price they are offered and at the particular stage in our technology—we are sort of between designs—they are probably offering a more desirable product in certain of the PBX fields than we are. We can meet them on the international market on even terms, and win sometimes and lose at other times.

**Mr. Groos:** It is almost ten minutes to twelve.

**Mr. Deachman:** What time are we going to adjourn? Could you give us some idea where we all fit in on the list?

**The Chairman:** Yes. Mr. Rock, Mr. Groos—the Chairman has restrained himself for the last three years from asking questions and I think it is time I asked some.

**Mr. Groos:** It is remarkable that that restraint has not conveyed itself to the whole Committee.

**The Chairman:** I have spoiled you people. That is the problem.



Mr. Marquez, relative to what Mr. Deachman has asked, you stated that you were buying for resale a lot of items from outside sources. Are any of these items sold to any of your subsidiaries or telephone companies in which Bell has a substantial interest? I mean items which you purchase from other manufacturers.

**Mr. Marquez:** The products we buy for resale, Mr. Chairman, are of a kind used by telecommunication companies to a very minor degree. The kind of products that we buy for resale are almost entirely directed to the electrical contractor field. They are the products that run parallel with building wire and low voltage power cables. There are a couple of exceptions to this and one is what we call "pole line hardware" which is used by telecommunication companies as well as by power companies and contractors as well as fibre duct which is used by telephone companies. So, we are really not in that field to any great extent.

**Mr. Rock:** Mr. Marquez, would you repeat Northern's percentage of the Canadian market in cable products relative to the Industrial Wire and Cable products?

**Mr. Marquez:** To the best of our ability to examine them, those fields in which we cross over—that is where we are competitive with Industrial—are very largely in the building wires and what we call "low voltage power cables", because Industrial is not in the communications field nor in the high voltage products field. In those products where we match—or compete, if you like—we get about 14 per cent of the market and it is our estimate that Industrial get approximately the same.

**Mr. Rock:** I can readily understand why it makes sense to sell others the things that you already make for Bell, such as telephone switching apparatus and so on. However, just as Mr. Zimmerman was saying last week, I cannot understand how the telephone subscribers benefit when you make things that Bell does not use such as building wires and cables. Can you explain?

• (11:50 a.m.)

**Mr. Marquez:** Yes; the building wires and other forms of non-communication cable are made, essentially, on the same machines that make telecommunication cable and I can assure you that in the last ten years—certainly in the last five years, to a very considerable

degree—we have examined many, many times and do so continually, the implications to the communications end of our business of abandoning the non-communication cable business. Every time we examine it we come up with the same answer, that there is somewhere in the neighbourhood of a million dollars of overhead that would have to go under the communications side that at the present time is being legitimately absorbed by our production in the non-communication field. It would increase the price of communications products.

(The Committee recessed for five minutes)

**Mr. Rock:** When you compete with Industrial Wire & Cable on jobs, do you usually underbid that company and get the job?

**Mr. Marquez:** For one thing, Mr. Rock, we never know when we compete with Industrial Wire because they do not bid themselves. They sell through distributors and when we bid on a job Industrial Wire never—or very rarely ever, to my knowledge—bid on the job. The bidding is being done through either another national distributor or through an independent jobber, so we do not know whose wire is being bid on.

**Mr. Rock:** Oh yes, I see. Well then, do you feel that your plant, in manufacturing this electrical wire, is more efficient than Industrial Wire & Cable?

**Mr. Marquez:** This is again a matter of opinion. I will put it this way. I think certainly we have one of the most modern, and one of the most efficient wire and cable manufacturing plants, not just in North America, but in the world. Our people have gone out and seen what other people are doing. We have a rod mill, for example, like no other in the world. We are using a particular technique for heating our wire bar with high frequency induction heating that was a first in its particular field. Instead of having to put these big chunks of copper, weighing 240 pounds each, into a gas-fired or oil-fired furnace and waiting seven hours to bring them up to 1700 degrees, we run them into a little induction heating furnace and in 110 seconds that bar is up to 1700 degrees.

**Mr. Rock:** In Montreal?

**Mr. Marquez:** In Montreal. One of the great resources that Canada has is cheap power and we are trying to use that resource to do our job more economically than per-



haps might otherwise be done. I would not want to compare our performance with any individual company, but, I certainly have no hesitation in saying that we do not think we will take a back seat to anybody in the cable manufacturing field.

**Mr. Rock:** You touched on the white goods which you have discontinued selling. On page 16 of Industrial's brief and also in Appendix B which reproduced one of your own ads, we find reference to the fact that you are also distributing things like screwdrivers, lighting fixtures, pliers, conduits, etc.

**The Chairman:** "15,000 stock answers" it says.

**Mr. Rock:** How does this actively help the telephone subscriber?

• (12.00 noon)

**Mr. Marquez:** We have to set up, whether we are in the distribution field or not, facilities across Canada to serve our major customers who are telecommunications people. That means we have to have administrative people; we have to have sales engineers; we have to have warehouses; we have to have all the facilities that go with the selling to the telecommunications companies. I also pointed out that because of the similarity of the manufacturing process, we also make non-communication cables and, therefore, we have to sell this as well. The non-communication cables are sold to power utilities and contractors and again it is a matter of trying to make the most economic use of the resources.

If we have a salesman call on a customer to sell him a piece of wire, it is more economical for us and more economical for him to be able to offer him the things that go with a piece of wire, the things he is going to put on both ends and the things he is going to use the wire for, because, a wire in itself is merely an electrical connection between a lighting fixture and a power source or something of that kind. And these are, as it were, functions which are grafted on to our major function and tend to make that major function more economical to perform.

**Mr. Rock:** You said that you do not use loss leaders. However, it is essential that we know whether or not the non-Bell activities are detrimental or not to the interests of the telephone subscriber. I would, therefore, like to ask a certain question. Is each one of the

products sold to non-Bell markets earning a profit appropriate to the market conditions prevailing?

**Mr. Marquez:** Let me answer your questions in sequence. First of all, I said that to try to use loss leaders, as it was described here, in bidding to a contractor suggests an unfamiliarity with what goes on in the trade because when a contractor is bidding on a construction job in which all the electrical material might be worth \$125,000, he is not going to agree to accept a package bid. What he asks you to do and what you have to do is to bid on every item on the list. You bid on the outlet boxes, the lighting fixtures, the parts, the wire and so forth. If you are foolish enough to put in a very low price on any one of the items, that is what you are likely to end up with and he will buy the rest of the material elsewhere.

What was the second part of your question? Oh, yes. I remember. You asked me how can we establish individually by products. Any attempt to make a distribution profit analysis by products is very difficult. I say this advisedly because we have tried it many times. The reason is this: the two major elements of cost in distribution are, of course, the order-getting effort and the order-processing effort. The order-getting effort is your salesman's effort and the order-processing effort, of course, is what you do to produce the paper and the invoices to supply the goods. When your salesman calls on a customer to sell him 30, 40 or 50 different items, it is a piece of arithmetic but it does not tell you very much when you try to figure out how much of the salesman's time was devoted to selling wire, to selling fixtures, to selling pipe and how much was devoted to selling lamps. You can divide it up, but it does not mean anything. If you took one item out, you would still have the salesman call.

Similarly, when you get down to the order processing and you produce a bill which has 30 or 40 items on it, any attempt to determine how much of the cost of the bill was devoted to line number 1, which was wire, and line number 2 which was pipe, again, is a worthless exercise. What you can do is organize your operation, as we do, by customer. It is very easy to tell whether or not dealing with a customer is a profitable business. You know what kind of gross profit margin you make on selling to the customer. You know whether he is buying his material from stock which costs you more than if he

was buying it on direct shipment from the supplier. You know whether he pays his bill in 30 days or whether he takes 90 days. These are the factors which you can put together specifically to determine whether or not your business with that customer is profitable.

To take several thousand different products and to try to disentangle them is difficult. I am not talking about a manufactured product. A manufactured product is a different thing because you can look back at the capital investment you have acquired in order to produce that product but, talking about a distributed product, it is a very difficult thing to determine product-wise with any degree of authority. You can go through a very complex piece of accounting gymnastics to come up with figures that do not mean very much because nearly all of your figures are allocated. You are making assumptions that do not really hold water.

**Mr. Rock:** In that case, what is the total rate of return on the capital investment in your business?

**Mr. Marquez:** We try to make a return of 10 per cent. We do not always succeed in doing that.

As I said earlier, we do distinguish every year in an exercise that is audited by our auditors. We do examine the capital we are using for business devoted to non-Bell customers and compare it with the capital we are devoting to business with Bell customers. Our constant objective is to make a better return on the investment we are using for non-Bell purposes than the capital we are using directly for Bell. We do not always succeed in doing this. In the immediate past 20 years, there were three years in which we fell somewhat short of this and five years in which we came out about even, and in the remaining 12 years we were better.

**The Chairman:** If Mr. Rock will allow me, I had a question on this point myself.

**Mr. Rock:** Mr. Chairman, I want to mention something here. I always believed, since we have a Co-Chairman, that usually when a Chairman wants to ask questions he steps down over here.

**The Chairman:** Not at all, Mr. Rock. It is a supplementary to this as well. I am going to make a new ruling pretty soon, unless this matter stops. Mr. Rock asked about the percentage return on the capital investment. Is that correct?

**Mr. Rock:** The capital invested in the whole thing, yes.

**The Chairman:** Mr. Marquez, can you provide this Committee with the percentage return of Northern Electric on its net investment earned by Northern for both the non-Bell business and the Bell business during the last two years?

I have another question as well. Do you have the figures on the return earned on the average investment by Northern in its main line products on both the Bell business and the non-Bell business? I am talking about communications equipment, telephones, wire, cable; everything that Northern manufactures or purchases. What I really want to know is the percentage return on net investment earned by Northern Electric on Bell's group business, non-Bell business, and the return earned on the average investment by main line of products by Bell and non-Bell.

**Mr. Rock:** Are you sure that there will not be any secrets given out for the competitor, Mr. Chairman?

**The Chairman:** That is up to Mr. Marquez in his answer.

**Mr. Marquez:** I have those figures. I do not think it is appropriate to divulge the details of the figures but I can go back and say this.

First of all, when you ask me for the return on investment by lines of products we are back in the area of the exercise that Mr. Rock asked about. This is accounting gymnastics. It does not really produce anything of significance. If you are talking about return on average net investment on Bell business as distinct from non-Bell business, I will pick a couple of old years in which the figures are not significant. Here are the figures for 1954; 11.9 per cent return on the non-Bell business; 8.2 per cent return on the Bell business.

**The Chairman:** How about more recent years, Mr. Marquez?

**Mr. Marquez:** Let us take 1962 which was one of the years in which we did not do quite as well. We made 9.8 per cent on the Bell business and 7.8 per cent on the non-Bell business. This is about the area that it runs in.

**The Chairman:** What about the years 1964, 1965, 1966, 1967?

**Mr. Marquez:** By the time you get through I will not have anything left. What I can say



is that we set as a target, a 10 per cent return on our investment. We do not always achieve this.

**The Chairman:** Have you achieved that in 1964, 1965, 1966 on Bell business?

**Mr. Marquez:** We achieved it on non-Bell business in 1964.

**The Chairman:** On Bell business?

**Mr. Marquez:** Bell business was somewhat lower than that in 1964.

**The Chairman:** What would that be, Mr. Marquez?

**Mr. Marquez:** You mean how much lower?

**The Chairman:** Yes.

**Mr. Marquez:** About a percentage point lower. This is what we are trying to do, bear in mind.

• (12:10 p.m.)

**The Chairman:** Did you earn 10 per cent on Bell and non-Bell in 1965 and 1966?

**Mr. Marquez:** No, we did not. We came pretty close to it in 1966, but not quite.

**The Chairman:** I will not push you any further on that.

**Mr. Rock:** Thank you. Mr. Marquez, are you still in the manufacture of street lighting vapour fixtures?

**Mr. Marquez:** We have never manufactured lighting fixtures, Mr. Rock. We distribute fixtures.

**Mr. Rock:** Oh, you distribute them. I see.

My last question is this. Do you feel that there may be an exterior or interior financial power play to wrench the Northern operations from Bell Telephone of Canada? This is the impression I am getting now, and this is why I am putting this question to you.

**Mr. Marquez:** I will answer your question indirectly by saying that we wonder sometimes what the motive is for the exercise that has been taking place in the last five years.

**Mr. Rock:** Thank you. Mr. Chairman, I would like to ask when the visit to the Northern labs here in Ottawa will be?

**The Chairman:** I will let you know as soon as it is arranged.

**Mr. Rock:** I would also like to know, Mr. Chairman, while we are visiting the labs

whether we could also visit for about 20, 25 or maybe 30 minutes, their manufacturing plant close to the lab.

**The Chairman:** I will take it up with Mr. Marquez. Mr. Vincent says that all these facilities are available and we will arrange that as soon as our timetable and schedule permit.

**Mr. Rock:** Would you try to arrange that we also see the plants as well as the lab? I think this is important.

**The Chairman:** We will do that. Mr. Groos.

**Mr. Groos:** Mr. Chairman, I have one very short question. The witness was saying that Northern Electric sells the black simple telephone to Bell for, I think he said \$13.40, whereas they sell it to small companies for \$16.12. Has this been compared very favourably with the terms under which telephones are sold to smaller companies by the larger manufacturers in the United States? Does this in any way affect your relationships with the AT & T in that they licence you to manufacture telephones and then you are able, because of certain conditions, to underbid them in their sales in their own area?

**Mr. Marquez:** Mr. Groos, Western Electric does not sell outside of the Bell system in the United States at all.

**Mr. Groos:** Does not sell what?

**Mr. Marquez:** Does not sell outside of the Bell system in the United States at all. The Bell system in the United States serves 80 million telephones. It might be interesting to just get a cross-section. There are in North America 108 million telephones in service. There are 100 million in the United States, more or less, and 8 million in Canada. In the United States 80 million of the 100 million come within the Bell system and 20 million do not. When I talk about sales in the United States I am talking about sales to companies that come outside of the United States Bell system. We are not in competition with them.

**Mr. Groos:** Then you are not in competition with this in this instance?

**Mr. Marquez:** We are in competition with other people who are also licensees of Western Electric. The IT&T for example, through their Kellogg's subsidiary in the United States, make essentially the same telephone set that we are making. We do not think they



make it as well and we do not think they make it as economically, but they make it nevertheless.

**Mr. Groos:** Working it out roughly it seems to me that you are selling to Bell for approximately 20 per cent less than you sell to small companies. Now, quite a thing seems to be made out of this matter of a reduced price at which you sell to Bell. I am not a businessman; I am seeking this for information only and I do not know if you can answer this question, but is it not a normal practice in business that when you have volume sales you do have a lower price? Is 20 per cent out of line with the normal practice?

**Mr. Marquez:** Not at all, not at all. It is indeed normal business to have a sliding scale for volume. As a matter of fact we have thought many times of simplifying the matter by setting up such a sliding scale, but it produces great administrative problems. We do not want to spend all our time and effort and cost in working out prices on a sliding scale, so, to simplify it, it is set at an established figure. We are talking now of what we call merchandise, Mr. Groos, and this is merchandise by, as it were, pre-design. When we are talking about a central office, a switching system, we are in a different area entirely because there we are designing, as it were, a product to meet the customer's classification, and the margin of difference between the Bell price and the non-Bell price sometimes becomes considerably less than 20 per cent.

**Mr. Groos:** May I ask one more question, Mr. Chairman? Could you give me briefly, some idea of the total dollar value of manufacture in Northern Electric's main product line?

**Mr. Marquez:** Our total manufactured product in 1967 will reach a volume of about \$300 million.

**Mr. Groos:** How is that divided?

**Mr. Marquez:** Do you mean by product lines?

**Mr. Groos:** Product lines.

**The Chairman:** Do you mean the percentage sold of each product line to Bell?

**Mr. Groos:** Either way, in percentage or in dollars.

**Mr. Marquez:** I said earlier that about 60 per cent of our manufactured product goes to Bell. Which means that of that \$300 million

about \$180 million goes to Bell. I would prefer not to be asked to state what our volume is in any particular product.

**The Chairman:** I was just going to come to that.

**Mr. Marquez:** I will pass.

**The Chairman:** You will have to answer, Mr. Marquez. Earlier you gave me a list of your main product lines, I was going to ask you what the breakdown is of that 60 per cent to Bell. I gather you would rather not answer that.

**Mr. Marquez:** Well, for one thing I just do not have that information at hand.

**The Chairman:** But could it be provided?

**Mr. Marquez:** Yes, it could be provided.

**The Chairman:** Perhaps we could get that information at a later date. Mr. Émard?

[Translation]

**Mr. Émard:** Mr. Chairman, I would like to ask Mr. Marquez if we intend to use the system called "economies of scale". In other words, this deals with the advantages of grouping as many operations as possible under the same roof. How is it, then, that the Northern Electric Company has built several manufacturing plants in Saint-Jean, in Montreal, in Calgary and elsewhere?

[English]

**Mr. Marquez:** The business, Mr. Émard, of putting as many products as possible under one roof has limitations. When Northern sets up separate plants we do it with a very definite policy, we try not to fragment. We set up a plant in which we do everything of something. For example, in our London operation we make all our telephone sets and all our station apparatus. In our Lachine operation we make essentially all of our cables, although we do have a small operation that we are setting up in Calgary which will have as its main purpose the manufacture of rural telephone cable, because the big market for buried telephone cable of the rural type is in the west.

We have also learned by experience, as most other companies have, that your ability to operate effectively becomes restricted when you get beyond a certain size. We would like to have a factory if we could with not more than 1,500 people in it, in fact even 1,500 people is pretty big. It tends to become

too anonymous. It tends to reach a situation where the people believe they are mere cogs in a wheel instead of a part of a dynamic organization. So this business of decentralizing into smaller groups is a part of the normal growth process. In our Shearer Street operation we have 6,000 people at the present time. I would say that the probabilities are that we will—and again I hesitate to use the word “never”—but we certainly are not going to be looking forward to having a single operation that will have 6,000 people in it. We have some 1,500 or so people in London, we have about 800 in Belleville, we have nearly 2,000 at Lachine, and so it goes, Saint John is a very small operation with some 75 people. Calgary is even smaller, it has perhaps 25 or 30 people at present.

**The Chairman:** What you are saying is that you are sacrificing economies of plant scale for a separate happy family relationship.

• (12:20 p.m.)

**Mr. Marquez:** It is not even economies of plant scale, Mr. Macaluso, because—never mind the business of the happy family—we make our telephone sets much more efficiently in London where the whole purpose of the effort is directed toward this one type of product, instead of mixing it in with a wide variety of other things.

**The Chairman:** You say you are specializing in certain plants.

**Mr. Marquez:** That is right. Our Toronto plant specializes on switching equipment; our London plant specializes in station apparatus; our Belleville plant specializes in outside plant; our Lachine plant specializes in cable; our Shearer Street plant, which is our oldest plant, is a component plant; it produces a great many of the components which are used in many of the other factories.

[Translation]

**Mr. Émard:** A few years ago you bought some land in Vaudreuil. Are you still considering building a plant at Vaudreuil? I am very interested, of course, because this is my own county.

[English]

**Mr. Marquez:** Mr. Émard, when we bought the...

**The Chairman:** I guess I will have to let a part of the question go here.

**Mr. Marquez:** When we bought the land in Vaudreuil we bought it because we knew then, as we know now, that there will be a time when we will be expanding in the Montreal area, and the opportunity arose for us to get this land on what we consider to be very reasonable terms. When we bought it we had no immediate plans for expansion and at the moment I have to say that we still do not have any immediate plans for expansion. I was asked this question, in fact, at a meeting at Cité des Jeunes, Vaudreuil at the time we acquired the land. I gave, at that time, much the same answer. I pointed out that we had owned a piece of land at Lachine on which we eventually built; it was some 25 years before we built on it, and I said that I had every expectation it would not take that long before we build in Vaudreuil. We have no specific plans at the moment Mr. Émard. In the kind of business that we are in, it takes us about two years from the time that we decide to put a plant into operation to procure the facilities, put up the building and get the plant a going concern. So what we do today in the area of capacity expansion depends on our view of what we think is likely to be taking place or to be needed from us two years from today. This is a very tricky area because you are as likely to guess wrong as you are to guess right.

**The Chairman:** I want to point out to the Committee that it is my intention to adjourn at one o'clock, so if the questioning is finished by then it will not be necessary to come back after the Orders of the Day. I have Mr. Byrne, Mr. Stafford, and Mr. Pascoe.

Mr. Émard, are you finished?

**Mr. Émard:** No, No. I have quite a few questions.

**The Chairman:** Could you speed them up please?

**Mr. Émard:** My questions are short, it is Mr. Marquez that...

**The Chairman:** Mr. Émard, if Mr. Marquez was not answering completely then you would be complaining he is not giving you any answers.

[Translation]

**Mr. Émard:** In the past, the Western Electric Company held about 42 per cent of the shares of Northern Electric Company. How-



ever, since the Bell Telephone has now bought these actions, do you still have relations between Western Electric, technical relations for example?

[English]

**Mr. Marquez:** Prior to 1956 Western Electric had an interest in Northern Electric. They no longer have. We continue to have access to technical information from Western but on terms which offer us no preference over those which any other company in North America or outside would have. The situation that existed prior to 1956 in which we had access not only to patent rights and on technical information but also to Western Electric know-how no longer exists. We can get patent rights. We do normally have patent rights from a long standing agreement. We can buy technical information but so can anyone else and we have no opportunity any longer for our engineers to visit Western Electric factories and see how they do the job, see what tools they use, and perhaps get drawings of tools or test sets or other things of that nature.

[Translation]

**Mr. Émard:** Do you still buy products from the Western Electric Company when they can sell them to you at a lesser price than they would cost you to produce them yourselves?

[English]

**Mr. Marquez:** Western Electric will make components or products available to companies outside of its own system very reluctantly. We find ourselves much more limited than we used to be in the procurement of products from Western Electric. In essence, the Western Electric will sell us components *provided* we can assure them that we are setting up to have them manufactured or to manufacture them ourselves in Canada. They do it under duress if you like.

[Translation]

**Mr. Émard:** In your financial statements you talk a lot about your exports. In my opinion, this is a rather recent activity. Is this activity profitable or does it have to be subsidized by Canadians?

**Mr. Marquez:** Yes, it is a recent exercise and I would say that in the early stages our export operation is not as profitable as we eventually think it will be but I can also say that there is no export job that we have

taken which has had to be subsidized. Every job that we have done has more than paid its way.

[Translation]

**Mr. Émard:** We have often heard, from the very mouths of those representing The Bell Telephone Company say that it was a good thing for this company to own the Northern Electric Company. Do you think it would be a good thing for Northern to belong to The Bell Telephone Company?

[English]

**Mr. Marquez:** You are asking me a real tricky one here now, Mr. Émard. I will answer your question two ways. If I were the Bell, without hesitation, I would say that the ownership of the manufacturing and design is an essential for long term continuity and integration. On the other side of the fence I have to say also that Northern's capability today and our competence and our ability to compete in the international field could not have come about in the 80 years of our existence except, as I see it, under the circumstances which have existed which means partnership with the Bell.

**The Chairman:** Why is that, Mr. Marquez? Financial support or what?

**Mr. Marquez:** The keynote of this kind of integration, Mr. Macaluso, is the ability of the manufacturer and the design authority to have the confidence and the support, financial and otherwise, of the telephone authority so as to be prepared to take risks in the field of preparation which it otherwise might not do if it were simply doing this on speculation. There is a great deal of investment in resources and in capital facilities that the manufacturer and the design authority have to make and they have to do this on the basis of what, in our case, our owners are saying they are likely to need.

[Translation]

**Mr. Émard:** Mr. Chairman, I would have a few questions to ask, but I will be brief. However, there is a very special one which I must put forward, in order to remain faithful to my predecessors.

How is it that The Bell Telephone Company installers working side by side with the Northern Electric receive \$0.50 an hour more than the latter?

**The Chairman:** The labour relations field again, Mr. Émard, I do not think we are interested.



**Mr. Émard:** What have you got against labour relations?

**The Chairman:** Nothing at all. I asked for quite a few unions but at the same time I do not feel that we should get into labour relations problems and collective bargaining at this Committee.

**Mr. Byrne:** Mr. Marquez, I am still interested in your problem of entering into the market of the socialized communications of other countries. Do all other Canadian or North American manufacturers suffer the same disability, and do you know if they have been able to enter into these markets?

**Mr. Marquez:** In parallel fields, Mr. Byrne, yes they do. Canadian manufacturers, for example, who are in the power utility field, that is the power generation field, manufacturers of heavy transformers, and power generating equipment run into exactly the same obstacle that we run into and that is that the buyer, the authority which purchases, is a national authority and they as a matter of policy will buy from the domestic supplier or suppliers.

**Mr. Byrne:** Have you given any consideration or has the industry given any consideration to the question of whether this is in contravention of gas or even the extended Kennedy Round?

**Mr. Marquez:** Mr. Byrne, I can tell you that at the time of preparation for the Kennedy Round when the electrical industry, collectively, and the various companies singly, presented briefs before the special committee that was set up by the Canadian government under Hector McKinnon to review the situation, we presented a brief and we made it very clear that we were not so much concerned about tariff barriers as we were concerned about non tariff barriers to trade. This is a point that we have emphasized on many occasions and which we continue to emphasize. You can drop the tariff barrier to zero and it means nothing if, in fact, there are other obstacles in permitting you even to be heard.

**Mr. Byrne:** Have you any information of the similar instances here in Canada where the provincial governments are the owners of the utilities?

• (12:30 p.m.)

**Mr. Marquez:** To a degree, but in a very, very minor degree, Mr. Byrne. I think it is

true that one of the problems that we face in Canada is that we have ten different provincial authorities, each interested quite naturally in seeing that the particular problems become more industrialized than it is and there are instances, certainly in our field and in others, where all other things being equal, the province will give preference to the local manufacturer. There have been instances that have been talked about in the newspapers where one province or another is accused of giving some particular preference over and above all things being equal. My own experience is that it is more often talk than fact, but it is true and I have had experience of instances in which, all things being equal, the business will go to the local manufacturer. This has its problems because there are temptations to industry to set up uneconomic operations—fragmented operations. We have tried to resist this, and as I said a little earlier, our policy has been that where we decentralize we try to make all of something. In other words, if we are making nuts and bolts, we think it is quite reasonable to make the nuts in one place and the bolts in another, but to make half the nuts in one place and half in another place is not an economic exercise.

**Mr. Byrne:** Are you asking the government and the Department of Trade and Commerce to pursue this matter further?

**Mr. Marquez:** Yes, when we talk to the provinces we talk about this. Are you talking about GATT?

**Mr. Byrne:** Yes.

**Mr. Marquez:** Yes, we were are continually in touch, as you might well imagine, with the Department of Trade and Commerce, PCIC and people of this kind and we continue to point out that the big problem we face in the developed countries is certainly the non-tariff barrier and not the tariff barrier.

**Mr. Stafford:** What percentage of the total telephonic communication equipment purchased by Bell can Northern Electric manufacture?

**Mr. Marquez:** Bell, of course, buys a fair amount of stuff, Mr. Stafford, that you might not call "telephone equipment". I mean they buy shovels and spades and trucks and so forth. I presume you are not counting that sort of thing?

**Mr. Stafford:** I am just talking about the telephone communication equipment.

**Mr. Marquez:** Theoretically, there was a time when we were supposed to provide the whole cross section of this, but as time goes on what is happening is that the technology is exploding and I would say, without a doubt, there will be an increasing basis—the necessity for Northern Electric to become selective—and to say with malice aforethought, as it were, that in this particular field there is no point in our duplicating what someone else is doing. We should let that field be supplied by someone else.

I mentioned a little earlier that Ericsson has made fairly substantial sales to Western Electric and to Bell. So has RCA, in some particular instances.

**Mr. Stafford:** When Mr. Zimmerman was here the last time, he said, and I quote from page 137, the left column:

... that Bell's competitors are Canadian in every sense of the word ...

Is it not true that as a manufacturer of communication devices for computers your real competitors are IBM, CGE, Remington Rand and Westinghouse?

**Mr. Marquez:** Communication devices for computers?

**Mr. Stafford:** Yes; you make those, do you not?

**Mr. Marquez:** We make sophisticated devices, solid state devices. These are what we make at this operation near to our laboratories which, I think, Mr. Rock mentioned, that we call our Advanced Devices Centre. They are similar to the devices used in computers, but we do not serve the computer industry, Mr. Stafford.

**Mr. Stafford:** I see. Is it not true that your real competitors in the manufacture of telephone communication apparatus such as switchboards, telephones, exchanges and so on, are Siemen's Company of Germany, Ericsson of Sweden, IT&T and General Telephone of United States and Philips of Holland?

**Mr. Marquez:** They are among our competitors, yes.

**The Chairman:** Mr. Marquez stated this.

**Mr. Stafford:** My questions will not take too long if there are no interruptions from the Chair. I just want to find ...

**The Chairman:** Mr. Stafford, I bring to your attention that this information has already been given to the Committee.

**Mr. Stafford:** That may be so. I am getting to my point very quickly and would have reached it already had I had no interruptions from the Chair. That is all I am saying.

**The Chairman:** Mr. Stafford, I do not intend to put up with your bit of nonsense, so I am...

**Mr. Stafford:** I intend to have the right to ask...

**The Chairman:** ...telling you that such information had come to the Chair and I bring it to your attention for the simple reason that we do not want a lengthy discussion.

**Mr. Stafford:** That is quite true.

**The Chairman:** You were not able to be here because of another committee.

**Mr. Stafford:** That is also true, but I am getting to my final question which I would have finished already had it not been for the interruptions...

**The Chairman:** Mr. Stafford, will you finish your question and no "smart alec" remarks, please.

**Mr. Stafford:** We can always take a vote of the Committee.

**The Chairman:** Will you go ahead and do it, Mr. Stafford?

**Mr. Stafford:** If it were not for Northern Electric, is it not reasonable to assume that telephone companies in Canada would make purchases of over \$200 million outside of Canada that are now made inside Canada?

**Mr. Marquez:** I do not think there is any doubt about that, Mr. Stafford.

**Mr. Stafford:** In other words, if it were not for Northern Electric there would be a great increase in our balance of payments deficit in this country?

**Mr. Marquez:** Yes, that would be one of the results of this.

**Mr. Stafford:** I have just one final question. You are in the electrical wire and cable business in order to make more efficient use of your machines and equipment which, in turn, makes it possible for you to manufacture communication cable at a cheaper price?



**The Chairman:** We also had that information...

**Mr. Stafford:** I just want a "yes" or "no" answer which could be given far easier than your interruptions. I might say this right now. I usually do not stand too long asking questions. That is all I have. I just want to make my point clear, too. When I ask a question, and I think the Committee will agree, it is not usually too extensive.

**The Chairman:** Mr. Stafford, this Committee has usually been very honest in being here on time and I expect the same from the members of this Committee. Otherwise, Mr. Stafford, you do not get any special privilege over any other member of this Committee. I expect you to understand that. Mr. Pascoe.

**Mr. Stafford:** I understand that.

**The Chairman:** Let us not talk about wasting time. The Chairman will take command of it. Mr. Pascoe.

**Mr. Pascoe:** Mr. Chairman, Mr. Marquez answered quite a few of my questions on export. I just want to ask him one more. He said that a lot of the competition for his products comes from Sweden and Japan. Are they all imported or do they have any interest in the plant in Canada?

**Mr. Marquez:** No; I said, Mr. Pascoe, that in our efforts in the international field we met Japanese competition...

**Mr. Pascoe:** I see; the international field.

**Mr. Marquez:** In the domestic field the Japanese now are not really significant competitors, but the L. M. Ericsson is and they import their products.

**Mr. Pascoe:** Is there a tariff against those?

**Mr. Marquez:** Yes.

**Mr. Pascoe:** If that tariff were removed, there would be stronger competition?

**Mr. Marquez:** Yes, there would be but we are not advocating that the tariff be left where it is. We are quite in accord with what is taking place in the direction of lowering tariffs. We think that one way or another this is a situation we have ultimately to face and we just have to learn how to compete, internationally, so that we can safeguard our domestic market.

**Mr. Pascoe:** That is all, Mr. Chairman.

**The Chairman:** Thank you, Mr. Pascoe. Are there any further questions?

**Mr. Rock:** On a point of order, you sort of ran down Mr. Stafford...

**The Chairman:** Mr. Rock, we are going to continue our questioning. If you do not have any questions, you can bring up your point of order later. I have two or three questions to ask myself.

Mr. Marquez, there is one thing that I wanted to bring up about the export business to the United States, which, of course, we do not wish to restrict—we hope for more. Western Electric under the Consent Decree with AT & T is restricted in the business of selling except for Bell systems in the United States. Is that not so?

• (12:40 p.m.)

**Mr. Marquez:** That is right.

**The Chairman:** And this allows Northern to get into that market against, say, some other competitors?

**Mr. Marquez:** May I restate that? As a result of the Consent Decree, Western Electric unilaterally decided to restrict its sales...

**The Chairman:** There was some pressure through the FFC. I am not concerned with Bell; all I am asking is, because of this are you able to penetrate that market and compete with smaller competition in the United States?

**Mr. Marquez:** I would not call them small...

**The Chairman:** No, I do not know if they are.

**Mr. Marquez:** The people that we are competing with are a subsidiary of IT & T which is anything but small: Automatic Electric which is not exactly small and Stromberg Carlson which...

**The Chairman:** I am not criticizing, but this allows you a greater freedom to move in there?

**Mr. Marquez:** That is very true.

**The Chairman:** Now, on the matter brought up by Mr. Rock of this advertising of 15,000 wires and cables in the electrical business magazine that was brought to our attention, I think, by Industrial Wire. Do you have all these materials available? What is



the nature and organization of your wholesale? Do you have a large wholesale business?

**Mr. Marquez:** Yes, we do. We are a national distributor with some 30 odd distributing warehouses—four major ones—supporting a number of sales offices and small warehouses which carry the quick turn-over items. But we have four major houses supplying these.

**The Chairman:** What I am getting is that there have been opponents and critics of this Bill and the relationship between Bell and Northern Electric who have said that Northern should be taken away from Bell. That, however, is not our function here. What I am concerned with really is the matter Mr. Stafford brought up. What would a “spin-off” of the ownership of Northern Electric and Bell do to this wholesale business?

**Mr. Marquez:** We have examined the practical implications of “spinning-off” the wholesale business just as we have examined the practical implications of “spinning-off” the non-communication cable business and the evidence clearly was that it would increase the cost of our communication business.

**The Chairman:** Fine; that is the information I wanted.

If there is no further questioning, this Committee will be adjourned. We will not meet this afternoon at 3.30. Mr. Rock?

**Mr. Rock:** I just wanted to say to you that the questions Mr. Stafford asked led to answers which we never had before. Your remarks, I think, were not called for and...

**The Chairman:** Mr. Rock, will you let the Chair make the decisions here? As far as the questions were concerned, I stated to Mr. Stafford that he was probably at the broadcasting committee and for his information the answers to those questions had been given by Mr. Marquez. They were, in fact, answered by Mr. Marquez previously in reply to earlier questions. Perhaps you should have listened closely.

**Mr. Deachman:** I wonder if you could give us an idea as to what witnesses we are going to call at the end of the hearings of Bell Telephone and just what our line of questioning is to be. I am concerned that we will want to spend some time discussing and questioning the ability of the government to regulate and control a utility of this kind. I

also want to know when we enter that field who our witnesses will be.

**The Chairman:** Mr. Deachman, first of all, I want to thank Mr. Marquez on behalf of all the Committee members and myself for his very able answering of all questions. In fact, it is the first time I have heard this Committee complain of long answers, and I want to really give you my thanks, Mr. Marquez, for being so forthright and honest in your answers. I think we all appreciate your frankness.

At the present time our schedule is as follows: the Committee has decided to hear Bill C-113, an Act to incorporate Commercial Solids Pipe Line Company which is being presented by the Shell Oil Company of Canada Limited at 9.30 a.m. on Thursday, November 23. We have set aside only that one day for the hearing of that Bill. We will see how long it will take because we do not want to interfere with the Bell hearings. If it turns out to be a lengthy hearing on the Commercial Solids Pipe Line Company, we will have to adjourn the hearing. However, we should know that on Thursday, November 23.

We have a brief which will be distributed today from D.C.F. Systems Limited, Consultants and Data Control Functions, Toronto, and with the consent of the Committee, I am setting aside Thursday, November 30th at 10.00 a.m. to hear their brief and the witnesses will be so advised.

On Thursday, December 7, the Combines Branch, Director of Investigation and Research, Department of the Registrar General, will appear. I hope at that time there will also be witnesses here from the Department of Transport and other government departments and they will be able to give a joint presentation of some kind. I do not have the final word on that as yet.

The Department of Industry has been contacted and we do not have a set date for them yet, but we will be advising them.

I have been asked to contact the FCC in the United States to see if they would be interested in sending up witnesses, but we have yet to hear from them in order to finalize that particular procedure.

The question of experts and consultants has not been finalized at all as yet by the Steering Committee. Some names have come forward, but we are not yet really sure who it should be. Letters will be going out this week making certain queries of two individuals.

**Mr. Deachman:** Maybe Mr. Marquez would like the job. He did pretty well this morning.

**The Chairman:** I cannot look beyond December 7. I hope after listening to the people from the Combines Branch we might be able to move pretty rapidly on this Bill, but that will depend on the Committee, of course.

That is all the information I can give you concerning future witnesses, Mr. Deachman.

**Mr. Rock:** I thought we were not interested in the so-called "expertise" you are supposed to be looking for with the intention of calling them as witnesses.

**The Chairman:** The unanimous decision of the Steering Committee was to look into this matter and to have them called as witnesses. The Steering Committee was unanimous on it, but we have not, as yet, finalized who will be called.

**Mr. Rock:** When did we, as a Committee, decide to have such men?

**The Chairman:** About a month ago. Mr. Deachman as well as Mr. Orlikow brought this matter up, and Mr. Émard even discussed it.

**Mr. Deachman:** Mr. Chairman, in the event that we do eventually want such expert advice, even when we get down to the point of, perhaps, hearing our recommendations in camera, I wonder whether that point could be checked by the Steering Committee then so as not to block traffic?

**The Chairman:** I would like to proceed with the scheduled witnesses up to December 7. Then, perhaps, the Steering Committee could set almost daily hearings to expedite the hearing of this Bill, but I cannot look beyond December 7 at the present time.

There will be no meeting this afternoon.

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OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

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lation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House.*



HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

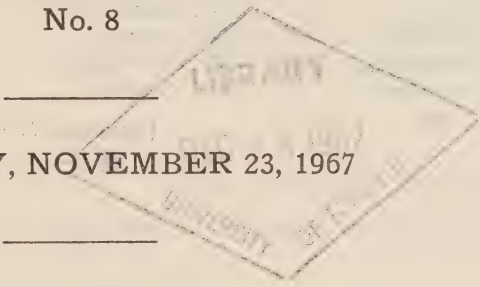
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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

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THURSDAY, NOVEMBER 23, 1967



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Respecting

Bill C-113, An Act to incorporate Commercial Solids  
Pipe Line Company

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WITNESSES:

*Representing Shell Canada:* Mr. Robert P. Ritchie, Vice-President, Transportation; Mr. J. E. Hughes, Vice-President and General Counsel; Mr. W. G. Burke-Robertson, Q.C., Parliamentary Agent; Dr. P. M. Ollivier, Parliamentary Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Chatwood,  
Mr. Deachman,

Mr. Émard,  
Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nowlan,

Mr. Orlikow,  
Mr. Pascoe,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—24.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## REPORTS TO THE HOUSE

FRIDAY, November 24, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### FIFTH REPORT

Your Committee has considered Bill C-113, An Act to incorporate Commercial Solids Pipe Line Company, and has agreed to report it with the following amendment:

#### *Clause 6*

That clause 6, paragraph (a) be amended by deleting the semi-colon on line 47, page 2, and adding thereafter the words "for the purpose of its undertaking; and".

A copy of the Minutes of Proceedings and Evidence relative to this Bill (*Issue No. 8*) is tabled.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*

FRIDAY, November 24, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### SIXTH REPORT

Your Committee reported this day Bill C-113, An Act to incorporate Commercial Solids Pipe Line Company, as its Fifth Report.

Clause 3 of the said Bill provides for Capital Stock of ten million shares without nominal or par value.

Your Committee recommends that, for the purpose of levying the charges by Standing Order 94(3), the proposed capital stock consisting of ten million shares without nominal or par value, be deemed to have an aggregate value of one hundred million dollars (\$100,000,000.00).

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*





## MINUTES OF PROCEEDINGS

THURSDAY, November 23, 1967.

(11)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Jamieson, Lessard, Macaluso, O'Keefe, Orlikow, Pascoe, Rock, Saltsman, Southam, Stafford—(17).

*Also present:* Mr. Ron Basford, M.P., Sponsor of Bill C-113.

*In attendance: Representing Shell Canada:* Mr. R. P. Ritchie, Vice-President, Transportation; Mr. J. E. Hughes, Vice-President and General Counsel; Mr. W. G. Burke-Robertson, Q.C., Parliamentary Agent; Dr. P. M. Ollivier, Parliamentary Counsel.

The Committee had for consideration Bill C-113, An Act to incorporate Commercial Solids Pipe Line Company.

The Chairman called on the Sponsor of the Bill who introduced the Parliamentary Agent. Mr. Burke-Robertson explained the purpose behind the request for incorporation and the regulatory effect of the National Transportation Act on the proposed Company.

The Chairman tabled and read excerpts from letters from the Minister of Transport (Paul T. Hellyer) dated November 22, 1967 and the Deputy Minister of Transport (J. R. Baldwin) dated November 21, 1967.

On motion of Mr. Bell (*Saint John-Albert*), seconded by Mr. Lessard,

*Resolved*,—That the aforementioned letters be passed to the Clerk of the Committee and held with the Committee Records.

The Chairman introduced Mr. Ritchie who read a brief prepared statement concerning the history of solids pine lines and the details of the proposed Company.

At the conclusion, the Chairman called the "Preamble" and a general discussion took place on Bill C-113.

There being no further questions, the Preamble and clauses 1 and 2 were carried.

On clause 3 being called, on motion of Mr. Cantelon, seconded by Mr. Lessard,

*Resolved*,—That, for the purpose of levying the charges provided by Standing Order 94(3), the proposed capital stock consisting of ten million shares without nominal or par value, be deemed to have an aggregate value of one hundred million dollars (\$100,000,000.00).

Clauses 3 and 4 were carried.

On clause 5 being called, it was moved in amendment by Mr. Deachman, seconded by Mr. Allmand,

That clause 5 be renumbered 5(a) and a new paragraph 5(b) be inserted as follows:

"The Company will have the responsibility to introduce all measures and devices necessary to curtail and prevent undue pollution of water, air and soil in the areas where the pipelines and associated plants and machinery operate."

After discussion thereon, clause 5 was allowed to stand.

On clause 6, it was moved in amendment by Mr. Cantelon that clause 6, lines 29 and 30 be amended by *striking out* "solids, liquids and gases, or any of them" and *inserting* therefor the words "sulphur in any of its forms and on lines 34 and 35, by *striking out* "any solids, liquids and gases or any of them;" and *inserting* therefor the word "sulphur".

There being no seconder to the motion, it was withdrawn.

Moved by Mr. Rock, seconded by Mr. Jamieson,

*Resolved*,—That clause 6, paragraph (a) be amended by deleting the semicolon on line 47 and adding immediately thereafter the words "for the purpose of its undertaking; and".

Clause 6 as amended was carried.

Clauses 7, 8, 9, 10 were carried.

Clause 5 was called and the Committee resumed consideration of the amendment proposed by Mr. Deachman.

Dr. Ollivier, Parliamentary Counsel, gave his opinion on the relevancy of the amendment to this particular Bill. Thereupon the Chairman ruled the amendment out of order on grounds of irrelevancy.

Clause 5, the Title, and the Bill as amended, carried and the Chairman was instructed to report the Bill as amended to the House.

At 12.10 o'clock p.m., the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*



## EVIDENCE

(Recorded by Electronic Apparatus)

**Thursday, November 23, 1967.**

**The Chairman:** Mrs. Rideout and gentlemen, we have before us Bill C-113, An Act to incorporate commercial Solids Pipe Line Company. You will recall that this Bill is sponsored by the Shell Oil Company Limited.

On Tuesday, October 25, 1966, when we were dealing with the National Transportation Act, we did have a brief presented to us by Mr. R. P. Ritchie, Vice-President of Transportation and Supplies, Shell Canada Limited. The contents of that brief can be found on page 2089 of the Minutes of Proceedings and Evidence of the Transport and Communications Committee, Volume 2 first session. At that time the subject matter was gone into quite thoroughly with Mr. Ritchie and other witnesses of Shell Canada Limited.

Mr. Basford, as sponsor of the bill, will you introduce the parliamentary agent?

**Mr. Basford:** Mr. Chairman, before introducing the parliamentary agent may I, as sponsor of the bill, express my thanks to you and to the members of the Committee for your courtesy in arranging for the Bill to be brought before the Committee at this time.

I would now like to introduce to you the parliamentary agent for the Bill, Mr. Burke-Robertson, who is on your right.

**Mr. W. G. Burke-Robertson (Parliamentary Agent):** Mr. Chairman and gentlemen, as the Chairman has said, this is an application for the incorporation of Commercial Solids Pipe Line Company.

The bill before you is in the usual form for incorporation of pipe line companies and contains the same general terms. However the principal purpose is to construct and operate a pipe line for the conveyance of solids from a point in the vicinity of Calgary to a terminal point near Vancouver. However, as you will observe, the Bill contains the power to transport all solids, and the only purpose of that at the moment is to give the

Corporation the same comprehensive corporate powers as are possessed by its competitors and other pipe line companies that have been incorporated.

I do not intend to go through the Bill in detail but before I introduce Mr. Ritchie and the other sponsors and supporters of the Bill to you I would like to emphasize and respectfully ask that you bear in mind one point throughout this morning's deliberations. Although section 6 gives the power to the Company to construct and operate a pipe line the opening line of that section reads:

• (9:50 a.m.)

The Company, subject to the provisions of any general legislation relating to pipe lines enacted by Parliament,

I would like to emphasize that the incorporation of the company does not carry with it automatically the power to construct and operate pipelines. That power can only be secured from the National Transport Commission and from the National Energy Board. I would like to illustrate this point, gentlemen, by reading to you section 25 of the National Transportation Act.

... the Commission may issue a certificate in respect of a commodity pipeline if the Commission is satisfied that the pipeline is and will be required by reason of the present and future public convenience and necessity, and, in considering an application for a certificate the Commission shall take into account such matters as to it appear to be relevant including, without limiting the generality of the foregoing, the following:

(a) the economic feasibility of the pipeline;

(b) the financial responsibility and financial structure of the applicant, the methods of financing the pipeline and the extent to which Canadians will have an opportunity of participating in the financing, engineering and construction of the pipeline; and

(c) any public interest that in the opinion of the Commission may be affected by the granting or refusing of the application.

I should also add that the granting of the certificate also requires the approval of the Governor in Council.

Section 26 of the Act goes on to provide that the Canadian Transport Commission and the National Energy Board shall have control over the tariff that may be charged by a commodity pipeline.

Section 27 gives the Commission power to require a commodity pipeline company without delay and with due care and diligence to receive transport and deliver through its pipeline any substance capable of being transmitted therein.

So, gentlemen, the powers that are given by incorporation are very considerably curtailed or, as I stated, are subject entirely to a subsequent application made to the National Energy Board and the Canadian Transport Commission. Therefore this Bill is simply the first link in the chain.

Mr. Chairman and gentlemen, two of the petitioners and other supporters of the Bill are here today and I would like to introduce them to you before asking Mr. Ritchie to address you.

First is Mr. R. P. Ritchie, Vice-President of Transportation and Supply, Shell Canada Limited, then Mr. J. E. Mims, Manager of Pipelines, Shell Canada Limited, Mr. J. E. Hughes, Q.C., Vice-President and General Counsel for Shell Canada Limited, Mr. R. J. Leach, Solicitor of the Company, and Brigadier W. S. Rutherford, the Ottawa Representative of Shell Company of Canada Limited.

With your permission, Mr. Chairman, I will ask Mr. Ritchie to come forward and present his statement to you.

**The Chairman:** Thank you, Mr. Burke-Robertson.

Before we proceed I want to read a letter I have from the Minister of Transport on this matter. I have discussed this letter with the Minister and the Deputy Minister of the Department of Transport. As the Minister could not be here he asked me to read this letter to the Committee. It is dated November 22, 1967, and reads as follows:

Dear Mr. Macaluso:

With reference to your message regarding the meeting of the Parliamentary Committee tomorrow morning,

November 23rd, to deal with the bill being sponsored by Shell Oil, it seems to me that the only relevant question regarding government policy that could be involved is the status of Part II of the National Transportation Act, which establishes the jurisdiction of the Canadian Transport Commission over commodity pipelines.

I am not sure that I will be able to attend the meeting because of the importance of the Cabinet agenda tomorrow morning...

The Minister is unable to attend and he so advised me this morning.

...but, if I am not able to be present, you could inform the Committee, in my name, that while Part II of the National Transportation Act has not yet been proclaimed by the Governor-in-Council, it is likely that this matter will be dealt with within the next few months.

This would, in effect, mean that any commodity pipeline project which might develop as a result of implementing action by the company under the proposed private bill which is before the Committee would have to be taken in accordance with the jurisdiction of the Canadian Transport Commission, as established under Part II of the National Transportation Act; i.e. the pipeline would have to be licensed by the Commission in accordance with the provisions of the Act, and conform in other respects with Part II.

...which Mr. Burke-Robertson just outlined.

If the members of the Committee wish any specific information regarding content of Part II of the Act, I believe arrangements could be made for a legal officer of the Commission to appear for this purpose, although any questions addressed in this connection would have to be related solely to the nature and content of Part II of the Act rather than to the Shell Oil proposal, since it is possible that the Shell Oil proposal would have to be dealt with in a judicial sense at a later stage by the Commission.

However, if at any time the Committee wishes to obtain information regarding the general state of the art in the matter of commodity pipelines as a whole, an appropriate official from the Research



Branch of the Department of Transport could be made available as a witness to provide information on this matter.

Yours sincerely,  
Paul T. Hellyer.

I discussed the possibility of obtaining a Commission witness with Mr. Baldwin, the Deputy Minister of Transport, and I will read, in part, a letter that I received from him dated November 21, 1967:

Dear Mr. Macaluso:

As agreed, I spoke to Mr. Pickersgill on the question of whether the Canadian Transport Commission wished to appear in connection with the Shell Oil pipeline bill.

On further consideration, we both feel that it would not be appropriate for a C.T.C. representative to appear before the Committee in this connection at this stage. It is possible that the Shell application might subsequently come before the C.T.C. for some form of judicial determination if the private bill is passed and, in the circumstances, it might be better for the C.T.C. not to be called to appear.

The principal relevant point at the present time is the question as to whether or not Part II of the National Transportation Act is to be proclaimed.

The letter continues but the Minister dealt with the same thing in his letter; it is a matter of policy.

I do not think it is necessary to print the Minister's letter but I would ask for a motion to table it.

**Mr. Bell (Saint John-Albert):** I so move.

**Mr. Lessard:** I second the motion.

Motion agreed to.

**Mr. R. P. Ritchie (Vice President, Transportation, Shell Company of Canada Limited):** Mr. Chairman, to assist the honourable members I have had prepared a short brief which I propose to go through, and if Mr. Leach would pass a copy of this to each member we could go through it together. I will be happy to answer any questions I can but it may be that as we go through the brief some of the questions that you might appropriately ask will be dealt with subsequently. I think it would be better if we finish reading the brief and then I will try and deal with any questions. Any questions I myself cannot answer will be answered by my col-

leagues, and if there is any information we have not available we will try and get it for you.

**The Chairman:** Mr. Ritchie, perhaps you could ask your colleagues to join you.

**Mr. Ritchie:** Mr. Chairman, I do not think that is necessary. However, if I need them I will call on them.

**The Chairman:** All right. It is your presentation.

**Mr. Ritchie:** Does everyone have a copy?

**The Chairman:** Yes, we have got it, Mr. Ritchie, thank you.

**Mr. Ritchie:** As Mr. Burke-Robertson has just explained to you, this is an application for a Special Act to incorporate a company devoted to the transportation of solids by pipeline. As you are aware, the creation of a Special Act Company is required before application can be made to the Canadian Transport Commission and the National Energy Board for permission to construct a solids pipeline.

● (10:00 a.m.)

Mr. Burke-Robertson has already drawn to your attention the matters that these boards will have to consider.

The pipelining of solids is not a new concept. During the last fifty years short pipe lines have successfully been put into operation in England and the United States for the carriage of coal and salt. More recently there have been built a 72-mile gilsonite line in the United States and a 50-mile iron ore line in Tasmania. The application for the Bill before you, however, represents a major advance in that the applicants contemplate construction in Canada of pipe lines many hundreds of miles in length transporting solids that have never before been moved by pipe line.

It should be explained that there exist two techniques for pipelining solids. These are commonly referred to as the "slurry method" and the "capsule method". Whereas a slurry system is based on the suspension of finely ground particles in a liquid, the capsule concept involves encasing the solid in either rigid or flexible containers which are then moved through the pipe line in a liquid vehicle. Shell Canada Limited, which it is proposed will become a major shareholder in the new company, is presently conducting a research program into slurry pipelining, the total cost of which will exceed \$1.7 million.



With regard to the capsule method, probably the most advanced research in the world is being carried out by the Alberta Research Council. An association known as the Solids Pipe Line Research and Development Association, of which Shell is an active member, has now been formed in Canada to assist the Alberta Research Council in this research, to which the Federal Government has also contributed financially. Another active group is the Pulp and Paper Research Institute of Canada which has pioneered the pipelining of wood chips. The University of Saskatchewan and the Saskatchewan Research Council are working on the pipelining of potash slurries.

It is appropriate that these efforts continue and even increase and that Canada be a world leader in this technology, because no other nation, save the U.S.S.R., has such great mineral resources located far from either tidewater or consuming markets. Passage of this Bill will provide a great stimulus for those engaged in research as it will mark a very practical step towards the fulfilment of their aims.

The capsule method of pipelining has not yet been developed to the point where it may be used commercially for long distance transport. On the other hand, Shell's research into slurry pipelining is approaching the point where the slurry method can be brought to fruition by the construction of a commercial line. We are convinced that slurry and capsule pipelining will each take its appropriate place in this country's future transportation system. The distinct difference between the two concepts will undoubtedly dictate the circumstances under which each may be appropriately employed.

In the brief on the National Transportation Bill, which I presented to this Committee in October, 1966, on behalf of Shell Canada Limited, I explained how important it is to Canada that it should be able to move its land-locked mineral resources, such as coal, potash, iron ore and sulphur, to market at tariffs which do not prejudice it vis-a-vis other countries, most of whose resources are nearer to tidewater.

As you know the world market for these minerals, of which Canada possesses an abundance, is increasing rapidly. Under present conditions Alberta sulphur exporters pay more than three times as much for domestic transportation costs as do exporters in other countries whose supplies are nearer to tidewater. If this unfavourable situation

should be allowed to persist, the potential economic benefits to be derived from effectively competing in this booming world market will be lost to both the Canadian sulphur industry and to the Canadian economy as a whole. We do not believe that this will be allowed to happen. On the contrary we believe that cost-conscious innovation will continue to be the rule rather than the exception. Those who wish to compete in world markets must be prepared to enthusiastically accept this challenge.

It is important to draw your attention also to the significance which the applicants for this Special Act place on the recent passage by this House of the National Transportation Act, some important provisions of which have already been mentioned by Mr. Burke-Robertson. By this Act Parliament has recognized that an efficient and economic transportation system using all available methods of transportation is essential to the progress of the Canadian economy. I submit to this Committee that our intentions in seeking passage of the Bill now before you, and our efforts with respect to the solids pipeline project which we stand ready to initiate, are in keeping with the letter and spirit of national transportation policy as defined in the National Transportation Act, and that the Act provides all the safeguards that are needed to ensure that our project conforms to the public interest.

The very large potential which exists in Canada for the development of commodity pipe lines would obviously be beyond the resources of Commercial Solids Pipe Line Company, and, indeed, quite probably of any single corporate entity. We feel that the granting of this application for Commercial Solids Pipe Line Company would accomplish much in the way of providing impetus to many others, who face the problem of long distance overland transport, to initiate commercial application of their own research efforts. As Members know, the granting by Parliament of our application for a Special Act Company in no way creates a monopoly, as Parliament already has given charters to other companies which have all the powers to move solids by pipe line.

Thus far I have dealt with the pipelining of solids and the objectives of Commercial Solids Pipe Line Company in a general way. I now wish to describe to you a particular project that is being planned for the proposed company. This is the construction

of a pipe line for the transportation of sulphur in slurry form from producing plants in Alberta to the Canadian West Coast. This sulphur pipe line will be made feasible by the slurry research effort within Shell and it will result from the sizeable research expenditures advanced for the project by this company alone.

The sulphur pipe line project which we have under study envisages a 12-inch main line with smaller diameter feeder lines. It would likely originate near the city of Calgary, around which a gathering system would be built to tie in plants in the immediate area. The main line would go south in order to pick up throughput at Southern Alberta plants, including Shell's large Waterton plant. The line would then enter the mountains at the Crownsnest Pass and go west until it reached the coast in the Vancouver area. A preliminary survey has been made of the approximate route of the sulphur line and this is shown on this sketch which I have with me.

I show it to you. This is only a sketch. You see it starting here in Calgary, going down to the Waterton area and across to the southern part of British Columbia. If anyone wishes to examine this in detail I will leave it here for that purpose.

Since to a large extent the exact location of the proposed route will be dictated by research and development, there is necessarily nothing final yet concerning the details of this route.

The cost of the line is estimated at sixty million dollars. While research is underway, Shell is bearing the full financial burden of this phase. Prior to construction of the pipeline facilities ownership shares will be offered to other sulphur producers in Alberta as well as the public. Following start-up and proven success, a further public offering of shares to Canadians will be made by the owner-producers.

The sulphur pipe line will be available on mutually-acceptable terms to all producers in Alberta who can conveniently tie in with the line. The resultant savings and stability of transport cost will help appreciably to improve the competitiveness of Canadian producers in supplying world markets and will aid in the negotiation of long-term contracts for sulphur sales without fear of spontaneous and non-controllable freight rate increases.

• (10:10 a.m.)

The current world demand for sulphur exceeds supply and this situation is attracting marginal sulphur production in foreign countries and encouraging the use of substitute materials. As this can cause over-supply and falling prices it is essential that we reduce our transportation disadvantage relative to other countries in the time that today's price levels give us. If progressive and innovative technology is to be excluded from the transport sector of our economy, the result can only be the continuance of high and non-competitive transportation costs. Such a prospect cannot be considered acceptable to a nation committed to a continued upgrading of its productivity growth rate.

**The Chairman:** Thank you, Mr. Ritchie. Before proceeding to the discussion and questioning I will call the preamble.

Mr. Orlikow.

**Mr. Orlikow:** For my information, how much sulphur is now being shipped per year from Southern Alberta sources of production to the West coast? Could you tell us that?

**Mr. Ritchie:** You are talking about industry sulphur going offshore for export?

**Mr. Orlikow:** No; what is moving is moving by railway, is it not?

**Mr. Ritchie:** All of it is moving by railway.

**Mr. Orlikow:** Do you people have any figures on how many tons a year are being shipped?

**Mr. Ritchie:** Yes, we have. The last figure I had on our annual production was about 1,750,000 long tons, total. This is increasing rapidly as new plants are coming on stream with new production. By 1970 we estimate that there will be about three and a half million long tons of sulphur produced in Canada.

**Mr. Orlikow:** Let us take the 1,750,000 long tons that you mentioned. Can you give us any information on what that means in terms of railway cars that are used?

**Mr. Ritchie:** Yes, I think I can do that, sir. I have here some figures. I do not know whether this is going to answer your question exactly but I have some figures on the volume of sulphur that would be moved by tonnage offshore, and this is what is really



relevant as far as this Bill is concerned rather than the total volume of sulphur moved. I might explain that any commodity pipe line moving solids is economic only when you have a large volume from one point to another point; and the fact that we may construct this pipe line and have a movement of the sulphur to the West Coast does not mean that there are not going to continue to be rail movements throughout the rest of Canada and into the United States, which have a considerable volume. As a matter of fact, this volume is higher than the offshore movement volume but on the basis of offshore, sir, in 1967 we estimate that there is an equivalent of 50 trainloads of 100 cars per train of sulphur moved by Shell and 140 trainloads for the industry.

**Mr. Orlikow:** Per 50 trainloads of 100 cars each?

**Mr. Ritchie:** Fifty trainloads of 100 cars per train.

**Mr. Orlikow:** Is that for the year?

**Mr. Ritchie:** This is what we estimate will happen in 1967. I am trying to give you the latest figures.

**Mr. Orlikow:** Of course. But the 5,000 cars for Shell is for the year.

**Mr. Ritchie:** That is right.

**Mr. Orlikow:** That moves from where? From Calgary, or from Waterton?

**Mr. Ritchie:** It is moved from all the sulphur plants. We move sulphur from Waterton, Harmattan and others in which we have an interest in sulphur production to Vancouver.

**Mr. Orlikow:** What is the cost of moving a ton from, let us say, Waterton to Vancouver by rail?

**Mr. Ritchie:** If you are trying to get at a figure to compare the cost of movement by rail against movement by pipe line, you have to not only take into account the rail tariffs but the handling costs because when you produce sulphur, you produce it and it goes in a solid block. You have to break it up and load it on the cars and you have to move it. There is some loss of the sulphur in movement by rail. You pay the rail tariffs at the other end. You have to unload the cars and pay an unloading charge and a charge to get it on board ship. The total cost is in excess of

\$12 a long ton, of which the rail cost in tariff only is \$10.08 per long ton.

**Mr. Orlikow:** What is that per ton? My arithmetic is pretty bad. Maybe yours is better. What would that work out to for the transportation by rail of your 5,000 carloads a year? Can you give us that figure?

**Mr. Ritchie:** I do not have that figure but I can get it for you on the back of an envelope if you want me to calculate it. This will not be hard, sir.

**Mr. Orlikow:** No, no. Mr. Chairman, this is the point which I am trying to raise and it is not in the form of a question. While I am all for the most efficient methods of transportation possible, I realize the necessity for us, if we are going to sell on the world market or even if we are going to produce in Canada, to be as efficient and as economical as possible. At the same time it seems to me that in this presentation we are told that not only does Shell want to move sulphur by pipe line but that Shell foresees the fairly early movement of coal, potash, iron ore, among other products, by pipe line. Mr. Chairman, if this happens—and I am not saying it should not happen—this will have a tremendous effect on the railways. The people of Canada and the users of the railway have invested a fantastic amount of money in the railways.

**Mr. Byrne:** Same old story.

**Mr. Orlikow:** Well, Mr. Byrne says "same old story". I am not objecting to this. All I am saying, Mr. Chairman, is that I personally think it is a mistake for us, for this Committee or for Parliament to be dealing with these things individually. These things, if they are granted, have a very drastic effect on other modes of transportation. I thought that the whole purpose of establishing the Canadian Transport Commission was that the Canadian Transport Commission would have the staff and the people and the technical ability to evaluate, not only the individual application but the effect on all the other forms of transportation—rail, road, air, and so on—and then to make recommendations. I do not think this Committee is qualified to think in terms as it should of the effect on the whole transportation system, and personally at this time I am not prepared to vote for this until we get that kind of technical advice from the Canadian Transport Commission.



**The Chairman:** Mr. Orlikow, our function really is to pass on this Bill. As Mr. Burke-Robertson pointed out earlier, the fact that Parliament incorporates this company does not mean that it automatically has a licence to go ahead and construct this pipe line. The matters that you legitimately raised are built right into the Act itself, the National Transportation Act, and it will then be up to the Canadian Transport Commission to decide whether it is in the public interest at this time to allow the licences for construction of this pipe line. I just point that out.

**Mr. Orlikow:** Yes, I realize that, Mr. Chairman; but before I would vote to approve this, I think that I personally as a Member of this Committee have a right to hear from the Minister of Transport and from the Canadian Transport Commission.

**The Chairman:** Mr. Orlikow, I read this morning a letter from the Minister of Transport.

**Mr. Orlikow:** I heard it.

**The Chairman:** Also, the Canadian Transport Commission have to deal in a judicial way with such an application for licence to construct, and they have nothing else to add to the letters that I have read; and they have informed us that in coming here they would have nothing further to add to that.

**Mr. Orlikow:** Mr. Chairman, I do not agree that they have nothing further to add because surely before they would grant this permission they would have to look at the economic implications. I think that we should be told the results...

**The Chairman:** I think it is written right into the Act, in section 25, subsection (1) and I will read it.

● (10:20 a.m.)

25. (1) Subject to subsection (3) of section 24 and subsection (3) of this section, the Commission may issue a certificate in respect of a commodity pipe line if the Commission is satisfied that the pipe line is and will be required by reason of the present and future public convenience and necessity, and, in considering an application for a certificate, the Commission shall take into account such matters as to it appear to be relevant including, without limiting the generality of the foregoing, the following:

(a) the economic feasibility of the pipeline;

(b) the financial responsibility...

(c) any public interest...

Therefore, so what we did when we passed the National Transportation Act was to create a Commission which has the very function to do what you are asking this Committee to do.

**Mr. Orlikow:** That is fine, Mr. Chairman. My only point, then is that if that is where it is going to be settled, then all we are doing when we are asked to pass on this, is to act as a rubber stamp. We do not know the facts and we do not know the economic implications, but we are asked to be a rubber stamp and to pass it on from this Committee. I am not prepared to be a rubber stamp.

**The Chairman:** I am not arguing one way or the other. I am only... Order, please.

**Mr. Rock:** Mr. Chairman...

**The Chairman:** Order, please. Order. Let us not get into a hassle. We are on questioning. Let us get back to the order of questioning.

**Mr. Allmand:**

**Mr. Cantelon:** Mr. Chairman, we seem to have got a little bit away from the questioning and if you would permit...

**The Chairman:** Yes, I agree.

**Mr. Cantelon:** I would like to make a comment on this, too.

**The Chairman:** I will come back to you. I agree that we did get...

**Mr. Rock:** Mr. Chairman, could I...

**The Chairman:** Mr. Rock, I will come back to you. You know I will.

**Mr. Rock:** Oh, yes; I know you will, Mr. Chairman.

**The Chairman:** All right, Mr. Allmand.

**Mr. Allmand:** Mr. Chairman, one of the questions I wanted to ask was asked by Mr. Orlikow, but did we get the information about what is the difference in cost per ton between the pipe line and the railways at present? Did you give that information, sir? I had some difficulty hearing.

**Mr. Ritchie:** No, I did not give that, sir. Conservatively we feel sure that we can reduce the transportation cost by at least one third.

**Mr. Allmand:** Would this include the handling?

**Mr. Ritchie:** Yes.

**Mr. Allmand:** The total transportation?

**Mr. Ritchie:** That is right.

**Mr. Allmand:** From the production area in Alberta...

**Mr. Ritchie:** Until it is delivered aboard ship.

**Mr. Allmand:** In this green brief you mention the possibility of transporting other commodities by pipe line. Did you mean by this particular pipe line? Will this pipe line be equipped to handle other commodities in addition to sulphur?

**Mr. Ritchie:** There are other commodities that could be put through, but not just everything. For instance, there are such solids as wood chips, iron ore and so forth. To put something through the pipe line, you have to have something that has a gravity similar to sulphur. It would be possible to put more than one commodity through under these circumstances.

**Mr. Allmand:** What do you visualize to be the use of this pipe line? What percentage of time would it be used, considering your present production in Alberta?

**Mr. Ritchie:** This would not be started and stopped. This would be going 100 per cent of the time.

Mind you, by putting in more pumping capacity you could put more through it as production increased but you would start it up with the idea that it would be kept going. It is not economic to batch it through—to start and stop.

**Mr. Allmand:** Would you set out to get long-term contracts from other producers in Alberta? Is this how you would guarantee that you would have enough to put through the pipe line? Because it would seem to me that the railways, especially with their new types of trains—I have read about these pipe line trains—might, in competing for this business, offer lower rates or do something to win back the business. Would you have long-term contracts with these...

**Mr. Ritchie:** As we envisage Commercial Solids Pipe Line Company, it would be owned by a number of shareholders, including the public. However, the producers would all want a share-interest in it, and once they had that, I would think they would continue to support it.

**Mr. Allmand:** I see. If this Bill is approved by Parliament do you intend then to apply immediately to the Transportation Commission for a licence, and to build almost immediately after that if you get the licence?

**Mr. Ritchie:** No, sir; we are at this stage on the research side and we have spent a lot of money on research. We have done sufficient research that we are sure of the technology and techniques. We have got the processes necessary to put the slurry into the liquid vehicle and to take the slurry out from the other end and end up with sulphur that is 100 per cent elemental sulphur, without any liquid contamination.

Because this is a new type of project, in order to finance it—in order to get proper financing—and for no other reason we would have to establish that we have more than just laboratory technique. We have to have reasonably full-scale pilot plant in several areas. We are just at the stage where we are going to proceed—once we get this Bill passed—with completing the pilot plant work. When that is done we would have feasibility. We would then be able to go before the Commission and ask for permission to construct the line; and we envisage that the line should be in operation by the end of 1970.

**Mr. Allmand:** Do you expect to have opposition from the railways in applying for such a licence?

**Mr. Ritchie:** I would imagine that the railways will want to present their side before the Commission. This is the normal procedure. We will probably have opposition from several areas.

**Mr. Allmand:** That is all, Mr. Chairman.

**The Chairman:** Mr. Rock, you are next.

**Mr. Rock:** In your brief you claim that you are trying to recapture part of the world market, and you feel that the only way to do so is to build this pipe line rather than use the railway systems. Is this right? In other words, it is very difficult for you to get into the world market selling sulphur because of



the high cost of transportation by rail. Therefore if you get the power to build a pipe line, and do build a pipe line, you feel that you would be able to export this material?

**Mr. Ritchie:** Those are not quite the facts, sir.

**Mr. Rock:** Well, after reading the brief...

**Mr. Ritchie:** There is no question that we and other producers are selling all the sulphur we can produce right now. This was not always so. In the early 1960's, the producers in Canada were not able to sell their sulphur in the world market, and there was considerable stock-piling. They were not able to sell it at anything like a reasonable return. We are at a crest. As in anything else, prices in a free economy are regulated by supply and demand. At the moment, because the demand is really in excess of supply, prices are relatively high.

This is not going to continue. At today's prices, as I think I point out in my brief, it will attract marginal production. There is all kinds of sulphur in the world in the form of iron pyrites, for instance, once you get these producers producing. Also, at today's prices there is every reason to try and get substitution, and then you will be in a cycle of lower prices. The fact is that the Alberta producer is at least at an \$8 a long ton disadvantage as against other world producers, the main ones of which are right on tidewater on the U.S. gulf coast and in Mexico and we have a long distance transport. Today's prices are high and if we do not get our economy in order so that the transportation is reasonable we will not be able to compete when we get in a lower price situation.

• (10:30 a.m.)

**Mr. Rock:** It took you a long time to say yes. You got around it but at the end you come back to it and said that transportation by pipe line would be cheaper and you would be able to compete with the other manufacturers on the coast.

**Mr. Ritchie:** I am sorry, sir, if I misunderstood you but I inferred that you were suggesting we were not competing as of today. We can compete as of today because the prices are sufficient.

**Mr. Rock:** Oh, yes. I think Mr. Orlikow...

**The Chairman:** Mr. Rock, we will come back to that question.

**Mr. Rock:** It is my turn now, Mr. Chairman, and I would like to make a short statement.

**The Chairman:** All we...

**Mr. Rock:** I would like to know, Mr. Chairman...

**The Chairman:** Let me make one point clear to all members. As far as Mr. Orlikow's statement is concerned, I was a bit lax there for a long time and I will come back to that when the questioning is finished and we will have a comment on Mr. Orlikow's statement. Is that all right?

**Mr. Rock:** Well, Mr. Chairman...

**The Chairman:** Mr. Rock, we will now get back to the questioning.

**Mr. Rock:** Clause 6 of your bill, line 35, reads:

... and own, lease, sell, operate and maintain aircraft and aerodromes for the purpose of its undertaking, together with the facilities required for the operation of such aircraft and aerodromes; and own, lease, operate and maintain interstation telephone, teletype, telegraph and microwave or television communication systems, and, subject to the *Radio Act*, and any other statute relating to radio, microwave or television, own, lease, operate and maintain interstation radio, microwave or television communication facilities;

You end here and you do not mention its undertaking in connection with the said pipe line. You say so for aerodromes but there is no mention of it in telecommunications. I would like to know why you do not mention it. Are you also intending to operate sort of a telecommunication system of some kind that has no connection with the pipe line?

**Mr. Ritchie:** Mr. Chairman, as this is really a legal matter may I ask my colleagues to reply from where they are rather than coming up here?

**The Chairman:** They will have to come to the table because these hearings are recorded and the microphones are there. Gentlemen, you can be seated right across the front.

**Mr. Rock:** In front of the microphones.

**Mr. J. E. Hughes (Vice-President and General Counsel):** Mr. Chairman, my understanding is that this is the sort of normal provision



that is contained in all bills covering pipe line companies.

**Mr. Rock:** I was also going to ask that. However, you still have not answered the question. If you operate this telecommunication system on your own is it only to be in connection with your pipe line or is it also to be an operation on the side of your pipe line business?

**Mr. Hughes:** I would think, sir, that it would be considered in its context and that is in relation to the company, an application for the incorporation of which is contained in the bill.

**Mr. Rock:** Then you have no objection if we add the words "in connection with the said pipe line" after the words "communication facilities"?

**Mr. Hughes:** As long as the words were sufficiently broad that it would permit the operation in connection with the undertaking of the company as authorized by the bill.

**Mr. Rock:** In this case you are forming a pipe line company without adding something to it, and if it is not added it would seem that you will also get power to operate a telecommunications system. Do you not think this is so, Mr. Chairman?

**The Chairman:** Mr. Rock, if there is a question on the purpose of its undertaking I do not think there would be any legal problem in setting it out.

**Mr. Rock:** You have no objection?

**Mr. Hughes:** No, no objection at all, because that is certainly the intention.

**Mr. Ritchie:** This is the intent and I believe the wording is identical to what has been done before. If by having it too broad we are in error, then Parliament has been in error more than once by doing the same thing.

**The Chairman:** We were in error with respect to the Rainbow pipe line and it has not passed the House. We would not want that to happen to you, Mr. Ritchie.

Is that all, Mr. Rock?

**Mr. Rock:** Yes.

**The Chairman:** Mr. Cantelon, you are next.

**Mr. Cantelon:** I would like to go to the first page of the very dark green brief. It reads:

As a nation, Canada cannot ignore the importance of continuously improving the efficiency of its transportation industry...

This is one of the things that everyone agrees with, of course, and I would like to ask a question or two along that line. Does the CN or the CP, whoever is moving your sulphur, presently have special cars for this purpose?

**Mr. Ritchie:** There are two methods of transporting it. One method is in bulk by hopper cars and the other is liquid sulphur. The liquid sulphur is in cars which the sulphur producers have to supply, as we have to supply tank cars for other petroleum products. The hopper cars are supplied by the railroad. These are not cars that are necessarily used for sulphur alone, they can be used for other commodities. But you are right, sir, the railways supply them.

**Mr. Cantelon:** Can you give me an opinion as to the proportion which are your own cars and the proportion which are hopper cars?

**Mr. Ritchie:** You are asking what proportion of the volume that we move is liquid as opposed to bulk. I really should be able to answer that and I can get the information if it is vital to you. All I can say is that we deliver in the form that the customer wants, and more and more customers are turning to liquid sulphur because this is the better way to handle it. However, in order to handle it in this way they have to have a facility at the other end to take it in. If you deliver the liquid sulphur and it is not in some heated and jacketed storage it will immediately solidify and set up, so they have to have these facilities. This is the way those people who have the facilities want it. As a matter of fact, I envisage the day when sulphur for export will go aboard ship and the ship will carry liquid sulphur. This is the more economical and better way to do it but I cannot specifically answer your question. If you wish I can get that information for you.

**Mr. Cantelon:** I think you can probably see what I am trying to get at. There will be an effect on the railway if they stop moving sulphur. This is really what I am concerned about. I am particularly concerned about this because it does not seem there is any way we can get this information because that part of

the transportation act that is important in this connection has not been proclaimed. I am personally rather disturbed that it has not been proclaimed. I do not see why it is being held up. That is perhaps a political statement and one which really should not be given here.

Can you give me an opinion on the development which is taking place in the Vancouver area in the production of sulphur products?

**Mr. Ritchie:** There is very little in Vancouver. At the moment we are installing a facility at our refinery where, instead of burning  $H_2S$ ,—this is in the area of pollution control—we remove it and produce sulphur. These are very small volumes when compared to the volumes that come out of the sour gas. This is where the sulphur is produced in Canada.

**Mr. Cantelon:** Yes, I know. The reason I ask the question is that I am concerned with what effect a pipe line, which would move the sulphur even more cheaply to the Pacific Coast area, might have on the development of industries there that would use that sulphur.

• (10:40 a.m.)

**Mr. Ritchie:** Mr. Cantelon, I recall that once before when I appeared you were concerned about pipe lines and cheap transportation and the impact on secondary industry.

**Mr. Cantelon:** That is right; I still am.

**Mr. Ritchie:** And I share your concern. I think we should do everything possible to see that anything that can be produced in Canada, economically, and can compete in world markets should be so produced. We should not be just moving raw materials out for others to produce. There is no question about this in our mind. While it is an elemental one of the constituents of the earth's crust and looking at it you consider it a raw material, actually sulphur as produced in the gas plant is a product. It has gone through a highly sophisticated process in order to get the  $H_2S$  out of the gas into elemental sulphur, and really you should not consider it as a raw material. Eighty-five per cent of the sulphur used in the world as sulphur is used to produce sulphuric acid. It is not only uneconomic, but technologically it would be very unsound to take the sulphur at the plant and produce sulphuric acid, and transport the sulphuric acid to the ultimate plant that

might want to consume it; this is not in the cards. We are doing everything we can when we put in very expensive plants. The Waterton plant was a multimillion dollar plant to produce elemental sulphur in Canada. The gas industry could have moved the gas—this residual gas of course goes down to the West Coast to the United States—and the gas could have gone down sour and you could have had your extraction plant down there. The fact is that we are doing everything we can in secondary industry when we take the sulphur out. The only feasible way is to move the sulphur as such to the market that wants to make the sulphuric acid.

**Mr. Cantelon:** Well, in my chemistry studies once upon a time, I remember reading a sentence somewhere to the effect that the amount of industrial development of a nation could be measured by the quantity of sulphuric acid that it consumed. So, it was for this reason that I asked the question. I wondered what sort of development in the consumption of sulphuric acid was taking place on the Pacific Coast.

**Mr. Ritchie:** Well, let me have another shot at this. Of course, you are quite right; sulphuric acid is a basic of all kinds of industries, but a good percentage of it goes into fertilizer, and it is much more economic to move the sulphur out and produce the sulphuric acid in a location where there are other ingredients to make the fertilizer rather than to move the phosphates and everything into Canada and then move the finished fertilizer out. The transportation cost could kill you if you did very much of this, if you are talking about the export market.

**Mr. Cantelon:** I am interested too in what you said about the shares being offered to the public. Would you care to give us an opinion as to how soon, if you get the pipe line into operation, these shares would be offered, and perhaps what percentage of capitalization might then be offered to the public?

**Mr. Ritchie:** You are asking two questions. Relating to the first one, we would envisage that there would be some shares offered to the public at the inception. We try to spell this out in that very short statement. This is a new project. We feel that it would not necessarily be in the public interest to have a large share in the hands of the public at the inception. As soon as the project is operating and there is no question as to its success and the statement is made, we would have an



offering and expect that there would be additional shares offered to the public.

Once you have the public in a facility, even though it is a very small percentage of the public, you have to operate the facility in the public interest and not in the interest of the producers. So really the total number of shareholders I do not think really makes that much difference in the way the facility would be operated.

**Mr. Cantelon:** I see what you are getting at; of course it does not answer my question.

**Mr. Ritchie:** In the other thing I defer to the Chairman and his remarks about the Act. The Act specifies that before we can get a construction permit we would have to satisfy them as to the percentage participation that the public would have; otherwise we will not get it. This is spelled right out. I think it is premature to say that the public would have 10 per cent or 70 per cent; we are not quite at that stage yet. But there is going to be a time, sir, when we will have to talk about how we finance it and give full details; I think that is the time to set out what share the public should really enjoy.

**Mr. Cantelon:** Well, that certainly answers one of the objections that we have to some other acts that have been before us.

I notice that in your addendum No. I, you list a number of companies that you say have obtained the same privileges that you are asking for in this Bill; that is, to move almost any kind of solid material. Outside of that fact, do you really feel that there is any necessity for your particular pipe line, which you say is being built to move sulphur, asking for these privileges?

**Mr. Ritchie:** Mr. Cantelon, is your question that in view of the fact that we are talking about a pipe line primarily to move sulphur from Alberta to the West Coast, why should we have anything broader than just the right to move sulphur? Is this the question?

**Mr. Cantelon:** In essence, that is the question, yes.

**Mr. Ritchie:** I think the answer is that the other pipe line producers and the public as well as Shell, which will be the shareholders of the company, would expect and want the pipe line company to be able to compete with other companies. Parliament has already granted other companies the right to have the same provisions that this company is

requesting. I do not see how you can compete otherwise. Let me put it this way: a pipe line is very sensitive to volume, and the question was asked as to whether we could put something else through besides sulphur. If we were sitting there with the provision that we could only move sulphur through this pipe line and it would be quite viable, then we would be happy to do this. But you would be at a competitive disadvantage to somebody else who might start up a line and have more than one commodity, and with the additional volume they could do it more cheaply than you could, and this would be untenable. Therefore, we are really only asking to have the same provisions as Parliament has already granted for several other lines. Does that answer your question, Mr. Cantelon?

**Mr. Cantelon:** Yes, it answers my question. Of course, I feel that some of these other pipe lines should not have had such broad powers; I suppose it cannot be taken away from them now.

**Mr. Ritchie:** Mr. Cantelon, do you really mean this? Because in fact if you moved something else besides sulphur and this resulted in a lower transportation cost for the sulphur and the other commodity, would this be wrong?

**Mr. Cantelon:** Well, the economic implication of the whole thing is what bothers me. It might not be wrong but it might actually so harm other types of transportation that it might be a bad thing for the nation as a whole. I think it is too bad that the Transportation Act is not so directed as to allow some economic studies to be made of this.

• (10:50 a.m.)

**The Chairman:** Again I point out that one of the provisions of section 25 of the Act is that the Commission is to take into account economic feasibility and public interest.

**Mr. Deachman:** Mr. Chairman, I want to ask one or two questions concerning pollution at the separation plant onward. As I understand it, at tide-water or somewhere in the area of Vancouver the slurry will come into a separation plant, there the liquid will be removed from the slurry, there will be a refining process, what will emerge will be purified sulphur and what will remain will be the liquids plus the impurities that have been removed at the separation plant. Because you are going to be handling enormous



quantities of material we can see the possibility of a very considerable pollution problem and I want to know what safeguards you are taking so as not to pollute either water, land or air in the area of the separation plant.

**Mr. Ritchie:** Mr. Deachman, let me say that this was recognized as a possibility when we entertained this phase of research and it was our objective to come up with a process that would not be susceptible to air pollution. The candidate process that we have is one of a closed system. Instead of taking the chemical and so forth that you would use to extract the sulphur from the slurry liquid vehicle and putting in new ones, as this is a regenerative system, these are used within the system and, therefore, it is not susceptible to pollution. Really, what finally goes into the atmosphere in sulphur which in itself is not going to pollute anything. There is an  $H_2S$  problem in gas plants, but there is not any  $H_2S$  involved here.

**Mr. Deachman:** You have dealt here with air pollution; what about water pollution? A great quantity of water will have to be removed from the slurry in order to leave you with dry and refined sulphur. How much water do you expect to discharge...

**Mr. Ritchie:** You are inferring that the liquid vehicle is water.

**Mr. Deachman:** I am inferring that the sulphur will arrive in a slurry form, and that is what your plan here says. In the separation plant the liquid will be separated from the sulphur and presumably that liquid, in very vast quantities, must be discharged. Now I ask what the liquid is, where is it going to be discharged, and what are the considerations...

**Mr. Ritchie:** If I may interrupt, let me reassure you, sir, it is not water. As a matter of fact, part of our research considered water because there were some very good reasons that water might have been an ideal facility quite apart from the fact that water and sulphur are very corrosive when together. However you would have some other factors that you would have to mitigate. The liquid slurry is a hydrocarbon, sir, and there will not be any water to deal with at the other end.

**Mr. Deachman:** Is the liquid that will carry the sulphur itself a marketable commodity?

**Mr. Ritchie:** Yes.

**Mr. Deachman:** So this is not just a solids pipe line for the marketing of sulphur; there are liquids that go along with it which are also marketable commodities. While that might be interesting to explore I want to remain on this subject of pollution because I do not think it has been taken care of adequately. Are you subject to regulations either by the Province of Alberta or by the Province of British Columbia in regard to the anti-pollution devices that would be carried in a separation plant, and have they been in touch with you in regard to this?

**Mr. Ritchie:** Are you talking about this specific project?

**Mr. Deachman:** Do the provinces have legislation to guard against pollution from a separation plant such as you propose?

**Mr. Ritchie:** Really, sir, I cannot answer that question. I have read in the press recently that Ontario is concerned about pollution of air and water and has proposed legislation to deal with this. I really cannot say what the situation is in British Columbia and Alberta but let me assure you, sir, that pollution is one of the things on which we spend very substantial amounts of money. We recognize this as a matter of good corporate citizenship and there is no question here that our moving this material by pipe line rather than by rail is going to create additional pollution problems. As a matter of fact, when you move by rail you have loss of sulphur and there is not going to be this loss of sulphur when moved by pipe line.

**Mr. Deachman:** I realize that major corporations are somewhat conscious of pollution but I think only to the extent that it is drawn to their attention or forced upon them by governments, and I think everyone of us realize that. Anti-pollution devices are expensive and this is not really something you do unless it is forced upon you.

I wonder, Mr. Chairman, in view of the very growing pollution problem which vast industries like this pose in the movement of substances in such large quantities, whether or not a solids pipe line Act should not contain in it a clause which tends to protect the public from pollution which definitely could arise as a result of an operation of this kind. And before we leave the subject of solids pipe lines generally—we are setting the pace for them by the passage of this Bill—I wonder whether the pollution problem should not

be considered very, very carefully, whether with the help of experts we should not determine the size of the pollution problem involved, and whether federally we have any power to put a clause in a bill of this kind to protect the public now and in the future so that this does not become a growing problem.

Mr. Chairman, on behalf of those of us in the City of Vancouver, I want to say that the handling of bulk commodities is increasing extremely rapidly in this area. We are handling potash, sulphur, coal and so on, all of which tends to raise serious problems in respect of air, land, and water pollution. We live in a relatively compressed area of land on the edge of the sea, in an area where we are exporting more and more of these materials, and we have a larger and larger population to protect. I think perhaps now is the time that we ought to consider injecting a clause into a federal bill of this kind as a preliminary measure to guard our people against pollution.

Mr. Chairman, I may move such an amendment a little later on.

**The Chairman:** You are free to do so, Mr. Deachman.

**Mr. Bell (Saint John-Albert):** May I interject, Mr. Chairman? We will take that business on the east coast and take our chances on the pollution, if Vancouver does not want it.

**Mr. Southam:** Mr. Chairman, the area of my questions has been partly covered by my friend, Mr. Cantelon, but I was interested in page 4 of Mr. Ritchie's brief where it is stated:

As Members know, the granting by Parliament of our application for a Special Act Company in no way creates a monopoly, as Parliament already has given charters to other companies which have all the powers to move solids by pipe line.

Then on page 2 of the Shell brief, in the second last paragraph, it is stated:

To date, Parliament has set a precedent for solids pipe lines in the case of the ten Special Act pipe line companies listed on Addendum No. 1. Further data on the purpose of the Commercial Solids Pipe Line Company is outlined on Addendum No. 2, and the current Parliamentary status is covered on Addendum No. 3.

It lists them on Addendum No. 1. Mr. Chairman, could the witness tell us whether any of the others already covered by special acts are planning to compete with them in this particular product?

**Mr. Ritchie:** To the best of my knowledge, no. First of all, to compete at this stage they would have to be doing research at the same time as we are, and we are not aware that this is going on.

The reason, sir, that we are involved in this is that we are the largest producer of sulphur in Canada, and we are concerned with the cost of transportation and our competitiveness in the world markets. It seemed that this was an area in which we could well afford to do substantial research. I do not know that the other companies are doing research. Certainly, if we have a pipe line moving sulphur there is no reason why others cannot take advantage of this research.

**Mr. Southam:** I noticed that you say on Addendum No. 1, using as an example, Yukon Pipe Lines Ltd., which are under special Act,

"...oil and gas and other liquid gaseous hydrocarbons and products thereof..." e.g. sulphur.

That was what made me ask the question. You would admit that if we did not grant you this privilege by special act that you are now requesting you might be put in an adverse competitive position with other distributors?

**Mr. Ritchie:** That is true.

**Mr. Southam:** What are your chief sources of markets for sulphur, incidentally, just to get some further information on this whole field?

**Mr. Ritchie:** Do you mean other than export?

**Mr. Southam:** I mean in export. What are your chief sources of export? Where does most of this sulphur go?

**Mr. Ritchie:** Sulphur is a commodity that is required world-wide. As I mentioned, the biggest end-use of sulphur is in fertilizers. We have shipped sulphur to India, Greece, and Australia. As a matter of fact, some of it has gone to so-called Iron Curtain countries. I cannot give you a list of all the countries to which we export.



**Mr. Southam:** These are some of the basic outlets?

**Mr. Ritchie:** That is right.

**Mr. Southam:** I now wish to refer to your earlier remarks that you have to remain competitive and that we, as a growing nation, should see that the industry remains competitive. Do you consider that you have any chief competitors, or large competitors, in this field in Canada in the exporting of sulphur?

**Mr. Ritchie:** Everybody producing in Canada is on a similar basis. The rail rates are similar. The cost of producing sulphur from a sour gas reservoir will vary depending on the type of gas involved. The sulphur producers in Canada are in the same situation as we are vis-à-vis competition which they face worldwide, on the United States Gulf Coast, or in Mexico, or in France, all of which are on tidewater.

• (11:05 a.m.)

**Mr. Southam:** Do you know if any of them are making plans to move their competitive sulphur product by pipe line in competition with you?

**Mr. Ritchie:** They do not need to move it by pipe line because they are on tidewater. They can take their sulphur when produced and put it aboard ship. They do not have the \$8 dollar disadvantage that we have. The reason that it is not \$12 is because they do have the same type of handling.

**Mr. Southam:** I am speaking of Canadian competitors.

**Mr. Ritchie:** All the Canadian competitors are in a situation similar to ours.

**The Chairman:** Mr. Southam, if you will look at the report, "The Sulphur Pipeline Story", and at the third map, it indicates what Mr. Ritchie is pointing out about the United States producers which are on tidewater and the Canadians producers which are all inland.

**Mr. Southam:** Are there any substitutes for sulphur appearing on the scene? I do not suppose there are, but if, for example, you did not get this economical means of moving sulphur by pipe line would there be something else that would fit into the picture? I admit that this is based on chemistry, but I was just wondering if there were any substitutes?

**Mr. Ritchie:** I cannot tell you categorically that research in this area is advancing to the point at which no sulphur is going to be required and that there is an economical substitute for sulphuric acid. This is really what we are talking about—whether you can have a substitute for sulphuric acid. Certainly, at current sulphur prices there is an incentive to do this, and presumably a large user of sulphur acid should now be engaged in this kind of research.

**Mr. Southam:** That concludes my questioning.

**Mr. Pascoe:** Mr. Chairman, many of my questions have already been answered but perhaps I might ask two or three with some local or regional implications.

Mr. Ritchie mentioned something about the possibility of moving other commodities if they had a similar gravity base, or something like that. Would potash be one of them?

**Mr. Ritchie:** Potash would be, sir. Potash and sulphur are of similar gravity. Why I say similar gravity is because you can only move a "slurry" through a pipe line by means of pumps, as you are aware. As a matter of fact, pumps have not really been designed for this purpose; this is part of the program we have under way. However, a pump that would satisfactorily move sulphur could, I think, in all probability, also move potash; but a pump that would move sulphur and potash would not really be the type of pump that move wood chips and iron ore.

**Mr. Pascoe:** I understand.

**Mr. Ritchie:** As I said, you would have to have something of similar gravity.

**Mr. Pascoe:** Would potash have to go separately from sulphur?

**Mr. Ritchie:** Yes: it would have to be batched through.

**Mr. Pascoe:** You mentioned main pipe lines and feeder lines. If there was some kind of a process that would accommodate potash, too, would feeder lines into Saskatchewan be enough, or would they have to have a main line?

**Mr. Ritchie:** You would have to have a main line. The feeder line, sir, is like a gathering system, in which you would gather sulphur from each plant that is hooked into the main terminus, from which it moves on.



**Mr. Pascoe:** That is what I am trying to find out. A feeder line would not accommodate Saskatchewan potash.

You have mentioned the great world demand for sulphur and that if you did not get efficient transportation present prices might encourage use of substitute material. What would that be?

**Mr. Ritchie:** This would be a substitute for sulphuric acid.

**Mr. Pascoe:** Oh, I see; not for sulphur?

**Mr. Ritchie:** No.

**Mr. Pascoe:** I wondered.

**Mr. Ritchie:** I think I mentioned that 85 per cent of the sulphur in the world is used to produce sulphuric acid. Sulphuric acid, as Mr. Cantelon said, is the base for a wide area of industrial...

**Mr. Pascoe:** Continuing on this regional aspect, you also said that a great deal of sulphuric acid is used in fertilizer. Would it be used along with potash, or are they two separate entities? They work together, and they would both be required for fertilizer?

• (11:10 a.m.)

**Mr. Ritchie:** That is right.

**Mr. Pascoe:** I have just one small question for any own information. On page two of your brief you said

While research is underway, Shell is bearing the full financial burden...

but in your statement you refer to the fact that you are working with the Alberta Research Council, that the Federal Government is contributing financially and the University of Saskatchewan and the Saskatchewan Research Council are involved. Are you not making use of some of their findings?

**Mr. Ritchie:** I am afraid that I did not make this quite clear although I thought I had, sir. We are talking about apples and oranges. Really there are two entirely different processes by which solids could be moved by pipe line, one is a capsule method and the other is a slurry method, and when we say that we are carrying the full burden we mean the full burden of our research in the slurry form and we are much further advanced in this than the Alberta Research Council. SPRDA is the Company that has been established to further the work of the Alberta Research Council; Shell is a main

contributor and is enthusiastically working with SPRDA in the area of capital pipe lines. But they are now just in a feasibility study area to see in fact whether they should get into substantial research. It will be a long time before we have a capsule pipe line in operation. Did I make myself clear?

**Mr. Pascoe:** Yes, but perhaps you can comment now on the capsule. Do you see movement of wheat by capsule at all? Could you comment on that or is it out of your field?

**Mr. Ritchie:** I think that technologically it is likely that eventually this will be feasible. Whether it will be economically feasible or not, Mr. Pascoe, I would not want to say. The wheat would have to be moved in some kind of a plastic container or some other kind of container. There is no doubt in my mind that this, as I say, technologically could be done but I am not sure what the economics would be.

**Mr. Pascoe:** I note in your map of this sulphur pipe line that you seem to be very close to the United States. Do you see any possibility of a market down there?

**Mr. Ritchie:** Sir, we do supply a substantial quantity of sulphur to the United States.

**Mr. Pascoe:** By train?

**Mr. Ritchie:** Of course this goes by rail and will continue to go by rail because this sulphur is moved to various consumers and is not susceptible to a pipe line. So to get back to Mr. Orlikow's...

**Mr. Pascoe:** That is what I am trying to bring out.

**Mr. Ritchie:** ...area of concern, I agree with him because he should be concerned about this. As a matter of fact, Mr. Chairman, while I think the area of his question is not necessarily relevant nevertheless I can understand why he is concerned. If you would like, I will try to answer him to the best of my ability.

**The Chairman:** We will come back to that later, Mr. Ritchie. We know his problem but that is not our concern at the present time. We are dealing with an act to incorporate Commercial Solids Pipe Line Company.

**Mr. Pascoe:** Again on page two of your brief, you say:

A further delay at this time could set the project back two or three years with a detrimental effect on future sulphur exports.

We have just heard from the Minister of Transport that section 2 has not been proclaimed and may not be for quite a while yet. Would that affect your plans?

**The Chairman:** He did not say "for quite a while yet", Mr. Pascoe.

**Mr. Pascoe:** Are you able to go ahead with any plans until it is proclaimed?

**Mr. Ritchie:** Mr. Pascoe, I tried to indicate where we are at this point of time. We have done the basic research; we are sure of the technology; we have chosen the candidate processors, including the process to take the sulphur out of the slurry at the terminus in a way that will obviate any pollution. But these are only laboratory tests, small pipe line tests, small process tests. In order to establish this pipe line we will have to have a large-scale pilot plant in several areas and it is at this stage that we are right now. We have a big budget next year to complete our further research but we would think it imprudent at this stage to spend the kind of money that is required to do our pilot plant work unless in fact we have a vehicle to pursue.

**The Chairman:** Mr. Pascoe, for your information the letter of the Minister states...

**Mr. Pascoe:** "for several months"

**The Chairman:** ...that this matter will be dealt with within the next few months.

**Mr. Pascoe:** Is the material for the pipe line pretty well all Canadian-made?

**Mr. Ritchie:** If you mean the material the Commercial Solids Pipe Line Company, if and when it is established, will go out and purchase, the pumps and so forth, I think I can tell you categorically that if the material and equipment is available in Canada it will be purchased in Canada. This certainly is Shell's policy. Ninety-three per cent of the supplies that we purchased last year were Canadian-produced. Just to assure you on this point, I am sure all members have read about the large drilling rig that is being employed out on the West Coast. This is not a Shell rig but it was built on the basis of a Shell contract and the fact that somebody else built it was just a matter of financing. The decision was made to build it in Canada, at a time when there was no subsidy, at a substantial cost over and above what it could be built in Japan simply because we felt the right thing to do was to build it in Canada. I

can assure you that as far as the pipe line is concerned everything will be purchased in Canada that is susceptible to being purchased.

**Mr. Pascoe:** Thank you, Mr. Chairman.

**Mr. Byrne:** Mr. Ritchie, when sulphur in its original form is removed from the raw gas is it at the outset in a liquid form?

**Mr. Ritchie:** Mr. Byrne, in the gas it is  $H_2S$ , hydrogen sulphide; in the plant the end product is a liquid. This liquid is poured out in a block and solidifies quickly. No doubt you saw pictures of it in the early 1960's when they were not able to sell the sulphur and had to stockpile. There were literally mountains of it.

**Mr. Byrne:** But it could not be transported in this form? It would have to be reheated?

**Mr. Ritchie:** That is right. We solidified it and then when we wanted to market it we broke it up with jackhammers, put it on cars, and it was moved by rail.

**Mr. Byrne:** And you are proposing now to use a slurry—that is, it will be crushed again and put into a pipe line together with some other hydrocarbons.

**Mr. Ritchie:** Mr. Byrne, at this stage I am not sure that I should be telling you some of our research techniques but let me say that part of our research is taking the sulphur from the plant in such a way that it will go in to the liquid phase in a slurry form. So it will not have to be crushed, and this will assist Mr. Deachman. Of course he is not at the plant level; he is out in Vancouver.

**Mr. Byrne:** Could it not be transported in that form by ship to the ultimate market.

**Mr. Ritchie:** In liquid phase?

**Mr. Byrne:** Yes.

**Mr. Ritchie:** Yes, it would be practical; but there are no ships built for it. You have to have a ship that is jacketed and heated. Sulphur is quite susceptible to change from liquid to solid phase upon very little temperature variation. You have to have a ship that can be kept hot all the time. This is not only possible, but I think that in future this is the way in which sulphur will be moved.

• (11:20 a.m.)

**Mr. Byrne:** Therefore, you foresee no possibility of being able to escape the necessity of bringing it back to its solid form at the point of departure?

**Mr. Ritchie:** In the short term, no.

**Mr. Byrne:** Where is sulphur obtained by these other producers on the North American continent. Is it from natural gas, or from deposits?

**Mr. Ritchie:** In the Gulf Coast the sulphur resident in natural gas is in the elemental stage. Elemental sulphur is there in deposit, just as salt is found in deposits. I have never seen one of the processes, but it is a matter of putting liquid down a pipe line, bringing out the sulphur that is dissolved and reconstituting it. If you are really interested in this, Mr. Mims, who has been in Texas, may be able to tell you first-hand.

**Mr. Byrne:** Perhaps it is not relevant. Does the natural gas in the United States, which is also marketed extensively on the coast area, contain sulphur?

**Mr. Ritchie:** Their natural gas does not have the  $H_2S$  content of our natural gas. We have a number of natural gas fields in Canada that are relatively sweet, you do not have to clean it up and build a sulphur plant to make the gas marketable. However, there is a certain area, particularly in Southern Alberta, where there is so-called sour gas. As a matter of fact, there are fields that have such a high percentage of  $H_2S$  that you really have a sulphur mine in gaseous form. We have such a field ourselves, which we have not developed, which is really as a percentage, almost all  $H_2S$ .

**Mr. Byrne:** Would it not be more economical to transport that gas in the gaseous form to the tidewater and process it there?

**Mr. Ritchie:** Yes, this is a point. Mr. Cantelon would not agree with this, of course, but as a matter of fact some research was done some years ago by the Pembina people on moving  $H_2S$  by pipe line.

$H_2S$  is a very poisonous gas. A small percentage of it will kill you almost at once. You can rarely smell it. If you can smell it you are all right, but it is only a very small percentage that you can smell. I am not sure what the percentage is. If a relatively small percentage attacks your nostrils and you cannot even smell it it will kill you almost

instantly. If you ever had a pipe line break it would be worse than chlorine gas. It was for this reason that the proposal was abandoned.

Their proposal was to have two pipe lines, one containing the  $H_2S$  gas and another around it containing oil, so that it would be fully protected, in their view. However, this could still be particularly hazardous if you had a mountain slide, or something like that.

**Mr. Byrne:** Mr. Deachman was greatly concerned—I think quite justifiably—about the possibility of pollution on the Pacific coast in the harbour area. Is your proposed destination the Robertson Banks area or the Vancouver area?

**Mr. Ritchie:** We really have an open mind about where it might be. As a matter of fact, we would be happy to learn what is going to happen at Robertson Banks. Our studies, I can assure you, will give full consideration to whether it should be Robertsons Banks or the Vancouver harbour area, or elsewhere.

**Mr. Byrne:** What are the rates at the present time? You are shipping almost exclusively by CPR, I suppose.

**Mr. Ritchie:** Both CP and CN; but more CP than CN.

**Mr. Byrne:** Are they negotiated rates?

**Mr. Ritchie:** No, they are not negotiated.

**Mr. Byrne:** Notwithstanding the definition in the Railway Act, do you consider yourself a captive shipper, in any...

**The Chairman:** That is a different matter. I know the concern you have, but we are getting rather far afield. I would like to have all members back discussing the purposes of the Bill. They have been given plenty of latitude.

**Mr. Byrne:** Of course, there is the question of economics and whether the Bill should be passed...

**The Chairman:** Yes, I realize that, but that is not our problem at this particular time.

**Mr. Byrne:** I think Mr. Ritchie would be prepared to answer that.

**The Chairman:** Yes; but we may even have to ask Mr. Ritchie to come back to the Bill. It is very interesting information, but our purpose is to examine the Bill itself.

**Mr. Byrne:** Of course, one of the purposes of discussing this Bill is to determine the economics of transportation...



**The Chairman:** I am sure Mr. Ritchie would not have presented this Bill if it was not more economical for him. However, you understand what I am getting to, Mr. Byrne?

**Mr. Byrne:** Just this one question, then: Would you identify yourself as a captive shipper, notwithstanding the definition of the...

**Mr. Ritchie:** Oh, I think this is a fact. There is no competition. You can either carry it by hand, or by truck, or ship by rail. There is no other way of getting it there.

**The Chairman:** Mr. Andras?

**Mr. Andras:** Mr. Ritchie, from an answer to an earlier question I got the impression—I want you to confirm it or otherwise—that potash is very similar in the sense that if it were being carried by pipe line it would be a slurry pipe line. Is that correct?

**Mr. Ritchie:** It could be.

**Mr. Andras:** Was it the implication that, with the pipe line you are proposing, if there were a source of potash reasonably close by you could put sulphur in a batch and potash through the same pipe line.

**Mr. Ritchie:** This is a different area of research, Mr. Andras, but, yes, I think that would be quite feasible.

**Mr. Andras:** How far from the point of origin of your proposed pipe line is Esterhazy, for instance?

**Mr. Ritchie:** It is a good long way away.

**Mr. Andras:** 200 miles?

**Mr. Ritchie:** I think it is further than that.

**An hon. Member:** I would say 500 miles.

**Mr. Andras:** Five hundred miles?

**Mr. Ritchie:** There are two areas, as I understand it, of potential potash production. One is at Esterhazy, and the other is in the Saskatoon area. They are both a long way from Calgary.

**Mr. Andras:** Would it be feasible, if or when this goes through, that at some later stage it could become a common carrier in the sense that there could be an extension from the potash deposits to your origin point?

**Mr. Ritchie:** It would be feasible, except, Mr. Andras, that if you had a potash facility

you would have to design it in at the inception; because I do not see that there would be the capacity to carry a substantial amount of potash and the sulphur.

**Mr. Andras:** In other words, the capacity will be pretty well taken up by your sulphur?

**Mr. Ritchie:** I think you would end up by what we in the industry call looping. You would have to have a second line unless you designed it in the initial stage.

**Mr. Andras:** Yes. What I have in mind, of course, is the obvious parochial interest in the potash deposits, because we have potash shipments to the Lakehead now; and it also gives access to deep sea vessels there, as well as—your ultimate objective—getting to tidewater on the West Coast.

You and I had some private discussions about this, but, just to explore it further, do your economic studies and research indicate that at some stage it might be feasible to have a potash pipe line, whether slurry or otherwise, from Esterhazy to the head of the lakes?

**Mr. Ritchie:** Yes; I think this would be feasible.

**Mr. Rock:** Mr. Ritchie, how many companies of sulphur does Shell own or is financially involved in directly or indirectly?

• (11:30 a.m.)

**Mr. Ritchie:** In Waterton it is 100 per cent. This is the largest producer of sulphur that there is in Canada. There are a number of other companies. At Harmatton Elkton there is a plant; at Crossfield there is a plant; at Okotoks there is a plant. I can get this information for you.

**Mr. Rock:** Is this all in Alberta?

**Mr. Ritchie:** Oh, yes. This is all in Southern Alberta.

**Mr. Rock:** No, I am satisfied with this answer that you are involved in many companies, not just one; that is what I wanted to know. How many pipe line companies is Shell, directly or indirectly, financially involved in at present?

**Mr. Ritchie:** I am not sure that I can tell you.

**The Chairman:** Mr. Rock, are you thinking of oil pipe lines or...

**Mr. Rock:** Mr. Chairman, I am leading to something that is very important.

**The Chairman:** I am asking: is it oil pipe lines or commodity pipe lines?

**Mr. Rock:** All kinds of pipe lines.

**Mr. Ritchie:** Well, there are no commodity pipe lines in Canada.

**The Chairman:** No, it is oil.

**Mr. Ritchie:** As far as oil pipe lines are concerned, let me see; I cannot name them all, sir. But there are Trans Mountain, Inter-Provincial, Portland Montreal, Trans Northern, Sun Canadian, Peace River, Westspur Producers...

**Mr. Rock:** So there are quite a few of them, then. This is what I want to know. How many of these run to the West Coast at the moment?

**Mr. Ritchie:** Only Trans Mountain.

**Mr. Rock:** Trans Mountain. Is this slurry form liquid that you were talking about in your brief actually oil?

**Mr. Ritchie:** Not 100 per cent oil as you know it. But if what you are getting around to is whether this could be moved through Trans Mountain, the answer is yes.

**Mr. Rock:** This is what I wanted to know. Therefore, why are you actually asking for a new oil pipe line under the cover of, say, a solid pipe line?

**Mr. Ritchie:** That is a good question. First of all, Trans Mountain is a system with a large capacity line. I happen to be the Company's Director on Trans Mountain, so I am a bit aware of its facilities. Its pumps and capability and so forth are not designed to move slurry. Obviously if you moved it through you would have to do it in a batch system and we think if Trans Mountain did this you would end up by having a separate looped line along the whole system. And in fact, to move up the sulphur to Edmonton and through a new line would end up by a longer pipe line than we are proposing to put in.

**Mr. Rock:** I understand. Thank you.

**Mr. Deachman:** Mr. Chairman, I now move, seconded by Mr. Allmand...

**The Chairman:** Wait a minute, Mr. Deachman, before we make motions. We are not on

the clauses just yet; we are only on general discussion.

**Mr. Deachman:** Yes.

**The Chairman:** We want to ask a few other questions before we make a motion.

**Mr. Deachman:** I will raise this at the proper time when I want to. I have an amendment here in respect of pollution—a very simple one—and I will raise that...

**The Chairman:** I want to raise a question with you on that before you move that motion. I can only discuss that after the motion. Anyway, are there any other questions?

Well, then, we will get down to the clauses of the Bill. Mr. Burke-Robertson has something to say on this pollution matter. I guess he will do it now because there is nothing in the Bill...

**Mr. Burke-Robertson:** Mr. Chairman and gentlemen, there are two things that occur to me in connection with the proposed motion. I realize that it has not been made yet, Mr. Deachman, but I gather your proposal will relate to some provision in the Bill to make the company subject to provincial anti-pollution laws.

**Mr. Deachman:** No, that is not the purpose of it.

**Mr. Burke-Robertson:** Well, may I just say this on the whole subject on anti-pollution. One thing is that if it is put in this Bill and not in the others, it appears on the surface to be discriminatory. But the second point, and the more important one by far, is that it seems to me that under heading 15 of section 92 of the BNA Act this whole question of legislation with respect to anti-pollution is a matter that the provinces would very jealously guard, as they guard all their fields of legislation. It seems to me that this company, as well as all other companies, is completely subject to whatever legislation is passed by any province with regard to pollution. It would be quite superfluous to insert a provision of that kind in this particular Bill, because it surely applies to all companies.

**Mr. Deachman:** Mr. Chairman, we are not at the clause yet, and I think, as you properly pointed out, that that should be a subject for debate when the clause is moved.

**The Chairman:** All right, we will get on to clause 1.



**Mr. Deachman:** I think we could let it go until we have clause by clause reading.

Clauses 1 and 2 agreed to.

On clause 3—*Capital stock*.

**Mr. Cantelon:** As there is no par value stated for the shares and because charges are levied on the dollar value of the capital stock, I move that for the purpose of levying the charges provided by Standing Order 94(3), the proposed capital stock consisting of ten million shares without nominal or par value, be deemed to have an aggregate value of one hundred million dollars (\$100,000,000.00).

**Mr. Lessard:** I second the motion.

Amendment agreed to.

Clause 3 as amended agreed to.

Clause 4 agreed to.

On clause 5—*Legislation relating to pipe line applicable*.

**Mr. Deachman:** Mr. Chairman, I move that clause 5 be re-numbered clause 5(a), and that a paragraph numbered 5(b) be introduced as follows:

The company will have the responsibility to introduce all measures and devices necessary to curtail and prevent undue pollution of water, air and soil in the areas where the pipe lines and associated plants and machinery operate.

**Mr. Allmand:** I second the motion.

**Mr. Rock:** Mr. Chairman...

**The Chairman:** Wait a minute, Mr. Rock, let me get this motion done first.

**Mr. Deachman:** I wonder if I might have just a word or two before...

**The Chairman:** Could you make it very short, Mr. Deachman, because you went into it pretty fully before.

**Mr. Deachman:** Mr. Chairman, I want to deal first of all with the question of whether or not the clause is discriminatory. It is true that it has not been introduced in the pipe line bill before, but if that argument were applied to every clause that is raised, every amendment that is raised in respect of a pipe line bill and were accepted, we would have no way of amending pipe line bills, and all pipe line bills would be exactly the same as all other pipe line bills. What I say is simply

that we certainly can improve upon pipe line bills by the introduction of amendments and change the nature of them.

• (11:40 a.m.)

The second point I want to make is that in the field of pollution, if this problem is going to be faced up in Canada, there must be the introduction of clauses which point out to companies that are contemplating new structures the responsibility for anti-pollution measures. And working back from that, that we gradually get on top of the question of pollution. When we come to the question of whether or not this is *ultra vires* the constitution, because it falls within the realm of the provinces or cities, I think the clause does no more than point to responsibility and surely the federal government has a right to point to responsibility in something as highly in the national interest as this. In drafting this clause we deliberately made it as general as possible and I do not think we have been harsh with the company, we have merely said that it must face up to its responsibility to protect the people of Canada from pollution. I submit that no company which is building a new structure in Canada has any right to poison the air people breathe, poison the water they drink and use and pollute their land and their soil and I ask that this clause be included to remind them and to remind all these companies of the real responsibilities in this area.

**Mr. Allmand:** I just have two points, Mr. Chairman. First, you will note that the amendment states "undue pollution". This is a word that is used in other statutes of this kind and, as Mr. Deachman pointed out, it provides a certain amount of flexibility. In other words, we do not want to see this company pollute the water, air or soil to the extent that it would be dangerous or harmful and that is why we used the word "undue". With respect to the constitutional argument, companies of this nature are under the jurisdiction of the federal parliament. Otherwise they would not come before us for enactment.

**The Chairman:** That is not so, Mr. Allmand. Just to clarify it for you, this is not a federal company. However, we will get into that later.

**Mr. Allmand:** The company is asking the federal parliament to incorporate it, and I think Mr. Deachman said...



**The Chairman:** It is only a federal charter because it crosses provincial boundaries.

**Mr. Allmand:** That is right, it is because it is crossing interprovincial boundaries. With all due respect to the counsellor who spoke to us earlier, I do not think it does violate the constitution. I feel we have the right to introduce provisions such as this with respect to corporations that are incorporated under federal legislation.

**Mr. Rock:** Mr. Chairman, it is very difficult to implement pollution measures when a company has been formed for years. However, I feel that it is our duty as Members of Parliament to impose anti-pollution clauses on all new incorporations in order that in the future they refrain from polluting the air, water and soil. I think it is our duty as Members of Parliament today to do this for the future.

**Mr. O'Keefe:** Mr. Chairman, I certainly agree completely—or almost completely—with my friend Mr. Deachman. Mr. Jamieson will know the very famous man to whom I am referring who once said that if a certain thing was not done it should have been done, and if this has not been done it certainly should have been done. I am not quite sure of Mr. Allmand's qualification respecting "undue" pollution. I do not believe, Mr. Chairman, that we want any company anywhere to pollute our land, our water or our air at all. I believe any action, or even any suggestion of action, by this Committee or any Committee of the House of Commons in this area is good.

**Mr. Stafford:** As a lawyer I agree that the clause is extraneous. The company is already subject to provincial laws relating to pollution. For example, in Ontario we have pollution laws, which you have already read, that were passed. The OWRC has control over any pollution of water and an application can be made and an investigation carried out at any time. I believe if we feel that the federal government has the power to pass those laws, we should pass a general pollution law which will apply to all companies and not just pick out one like this.

**Mr. O'Keefe:** It is a beginning at least.

**Mr. Stafford:** No, I do not feel it is a beginning at all. I think by putting it in here we are isolating a point, and I cannot agree that it should be in here. I am looking at it as a lawyer. Perhaps for the sake of public

opinion some of you may think we should put it in but I agree with Mr. Burke-Robertson, that we are putting in a clause which is extraneous as far as this particular act is concerned and if we are so intent on doing a job I think we should go the whole way and do a real job.

**Mr. O'Keefe:** It is not public opinion, it is public interest.

**Mr. Orlikow:** As a non-legal member of this Committee I want to ask if this amendment is included, and I like the principle, what protection will it give and how would this protection be exercised? I do not think that Shell would deliberately want to pollute, but let us assume for the moment that there is pollution or "undue pollution", whatever is the exact term, how would a municipal council or an individual citizen proceed if it is in the act? It may be, as Mr. Stafford said that it is a good thing because it is an expression of our desire, but I would like to know in what if any practical way this thing would operate?

**Mr. Stafford:** What I was getting at is that in the different provinces there are presently laws relating to this and in Ontario one thing you can do is complain to the OWRC if there is any pollution—

**Mr. Jamieson:** What is the OWRC?

**Mr. Stafford:** The Ontario Water Resources Commission, and I think all of us receive leaflets every month which contain the different fines that are levied for a violation of this Act.

**Mr. O'Keefe:** But we have pollution.

**Mr. Orlikow:** I have been to places like Sudbury and I have seen the pollution and if that is the only protection we have I am not very enthused about what is being done. Perhaps Mr. Deachman could explain to me what he has in mind about how this could be used if it is in there.

**The Chairman:** As far as the legal end is concerned, my personal opinion is as it was expressed by Mr. Burke-Robertson or Mr. Stafford, that it is very superfluous and it is very subject to constitutional problems I feel that the constitutional argument itself is sound. We are all very concerned about the problem which Mr. Deachman has raised but I feel, as Mr. Stafford stated, that if Parliament is concerned, as we are stating, then the general act should be passed, but it

should not be put into one particular company whose enforceability of it is nebulous because a provincial jurisdiction enforces it.

**Mr. Rock:** It is considered as a nuisance.

**The Chairman:** Mr. Rock, let me finish, please. I am giving you my personal opinion. Another thing is that I am wondering right now if the motion is out of order and is not relative to this bill that we are dealing with in any way whatsoever or if the amendment is not in order. I would like to hear some discussion on the matter of whether this motion is in order or not.

**Mr. Byrne:** Mr. Chairman, I am not a lawyer, and certainly not a constitutional lawyer, but at least I think that if this section were included in the act it would certainly be discriminatory in that we would impose upon this company the undertaking of certain responsibilities that we have not included in other acts and that a general act having to do with pollution—if the federal government has the right under the constitution—is the proper method of approaching this problem. Certainly—it would difficult to determine what is “undue pollution”. After all, if there is sulphur in the vicinity someone is going to smell sulphur. It may be that someone struck a match but it could be blamed upon the Company for having disseminated solid sulphur into the air. Provincial governments do have regulations. Mr. Ritchie has explained that in so far as their Company is concerned the processing will not contribute to pollution of either air or water since all of the materials moving through the pipe line are materials which can be used in the various processes. I think it would be quite improper, if they are not out of order.

• (11:50 a.m.)

**The Chairman:** Gentlemen, I am going to ask the Clerk to have Mr. Ollivier come down. I am going to ask you to stand clause 5 at the present time so we can go on with the rest of the Bill.

*On Clause 6—Power to construct and operate pipe line.*

**Mr. Cantelon:** I have an amendment to propose on clause 6. I move that we strike out the words “solids, liquids and gases, or any of them” in clause 6, lines 29 and 30 and insert therefor the words “sulphur in any of its forms”; and in lines 34 and 35 that we strike out “any solids, liquids and gases or any

of them” and insert therefor the word “sulphur”.

**The Chairman:** Do we have a seconder for the motion? If not, I cannot accept the motion, Mr. Cantelon.

**Mr. Cantelon:** Well, if nobody wants to second it.

**Mr. Rock:** I move that the following words be added after the last word “facilities” in clause 6, subclause (a) “for the purpose of its undertaking”.

**Mr. Jamieson:** I second the motion.  
Motion agreed to.

**The Chairman:** Mr. Ritchie and the Company have no objection to that amendment.

**Mr. Jamieson:** Mr. Chairman, clause 6(a) makes reference only to the Radio Act. Would that not also apply to the Broadcasting Act?

**The Chairman:** This clause says “and any other statute relating to radio, microwave or television”, Mr. Jamieson.

**Mr. Orlikow:** Mr. Chairman, before you pass clause 6 may I say that although I am not going to repeat the arguments that I made earlier in the meeting I do want the members of the Committee and the representatives of the Company to know now, because I would not want them to feel later that by my letting this through I have changed my mind, that if and when this comes before the House there will be considerable difficulty in getting it through.

**The Chairman:** Mr. Orlikow, that is another stage. Let us not make any threats. You are free to do whatever you want to do in the House.

**Mr. Orlikow:** I just wanted to make that statement.

**The Chairman:** This Committee is concerned only with the Bill before it at the present time. Everyone who comes before Parliament with a bill takes chances.

**Mr. Rock:** Mr. Chairman, when Mr. Orlikow made his statement before you said that we would be...

**The Chairman:** Mr. Rock, please make your statement very short because we want to get on with our work.



**Mr. Rock:** I would like to know from Mr. Orlikow whether he is in favour of having the CN and CP run all the pipe lines in Canada or whether he is only against them having competition with the railway companies.

**The Chairman:** Let us not get into a debate. If Mr. Ritchie wanted to get into it we could have a long debate.

Clause 6 as amended agreed to.

Clauses 7 to 10 inclusive agreed to.

**The Chairman:** We are now back to Clause 5 and Dr. Ollivier is coming down. Mr. Ritchie, perhaps you would like to say something on this amendment by Mr. Deachman.

**Mr. Rock:** Maybe we should wait for Dr. Ollivier.

**The Chairman:** This has nothing to do with the legal point; this is strictly on the matter of pollution.

**Mr. Ritchie:** Mr. Chairman, I think to be against this amendment is like being against motherhood. Quite apart from the legal aspect, I am sympathetic with Mr. Deachman's concern and I can tell you categorically that it will not make one iota of difference to what we do process-wise whether you have the clause in or not. I am inclined to agree with the Chairman and our counsel, that it is not really appropriate that it should go in. I can think of so many processes and areas in which this does not apply that it seems incongruous that you should take this one facility as a starting point.

**Mr. O'Keefe:** Perhaps we could make it retroactive for the others.

**Mr. Deachman:** Mr. Chairman, I think everybody who is concerned with pollution who is a member of the Legislature, or of Parliament, or of a city council, understands how difficult it is to come to grips with the problem from a legislative standpoint at all, but it is so serious in areas of major population everywhere in Canada that ways must be found of coming to grips with it. I quote to you an old Chinese proverb which says "A journey of a thousand miles begins with a single step". I ask you just this simple question: Is it really impossible for Parliament to write into a private bill an expression of its concern for the principle of that bill to safeguard the public from pollution?

**Mr. Ritchie:** Mr. Ritchie, I am not a lawyer and I really should not even reply to what you said, but I think that the answer is this: Is it appropriate that step number 1 be taken in this Bill? I would think that it really is not. I agree, and I think that if you can have a pollution act this would be good.

**An hon. Member:** This may be going in the wrong direction.

**The Chairman:** I have explained to Dr. Ollivier the clause of the Bill we are dealing with now and the proposed amendment he has. I would like to call upon Dr. Ollivier to give his opinions on the constitutional, legal and irrelevant arguments against this amendment.

**Dr. P. Maurice Ollivier (Law Clerk and Parliamentary Counsel):** I must say first that I have not had sufficient notice to fully understand the whole problem but there are two or three points that come to my mind.

The first point is that a private bill first is introduced on a notice. I have not seen the notice for this Bill but I doubt very much that it covers the point that you have in mind, and even if it were simply for that reason the amendment would be irrelevant.

The second point is that there is the question of jurisdiction. It may well be that many problems relating to pollution are federal. I suppose, in international waters or interprovincial waters, it would be irrelevant but it would not apply in those questions of pollution where only the provinces have jurisdiction. Thirdly, on the whole, I am not sure that it would be irrelevant to the Bill itself; and fourthly, I am not sure that they do not already have powers to provide that, even if it is not mentioned in the bill, they can attend to pollution of their own operations. From what I read there you are not forcing them to do anything.

• (12 noon)

**The Chairman:** Mr. Rock, you have a question?

**Mr. Rock:** Yes; I would like to put a question Dr. Ollivier. Although you believe this to be a provincial jurisdiction other than in international waters, do you not feel that pollution is also a nuisance, and, being a nuisance, comes under the Criminal Code...

**Mr. O'Keefe:** And a health hazard.

**Mr. Rock:** No, health would also become provincial. This is why I am saying it is a



nuisance. It is a nuisance to pollute water, air and soil—it is a nuisance to neighbours and a nuisance to other people. Therefore, as a nuisance, do you not feel that we have jurisdiction to impose this clause in this Bill?

**Dr. Ollivier:** Well, I do not think that gives you jurisdiction. If, as you say, it is already covered by the Criminal Code, which I doubt to a certain extent—I am not sure that it is a crime—you are not adding anything by putting that amendment there, because you are not providing any penalty.

Apart from that I do not see how you can put Criminal Code provisions in a private bill.

**Mr. Rock:** No, Dr. Ollivier. Mr. Chairman, I would like to continue on this. I will put it this way, that I believe that creating a nuisance could be controlled by federal legislation.

**Dr. Ollivier:** But you are not creating a nuisance there.

**Mr. Rock:** We are...

**Dr. Ollivier:** Not the way I read the amendment.

**Mr. Rock:** Well...

**Dr. Ollivier:** You say that they will have the responsibility of introducing all those measures. If it is already a nuisance defined by the Criminal Code they are already obliged by those sections of the Code. You are not adding anything by...

**Mr. Rock:** It is actually covered by a section in the Code...

**Dr. Ollivier:** You have said that they will have to observe the law and that they have the responsibility of bringing in measures and devices necessary to curtail what you consider to be a nuisance.

**Mr. Rock:** Has the federal jurisdiction got anything to do with nuisance? This is what I will ask you. Can we, as a federal authority, govern nuisances?

**Dr. Ollivier:** You can make a crime of something that is immoral and something that is criminal, but...

**Mr. Rock:** I am sorry, Mr. Chairman, but I cannot hear a word the doctor is saying.

**The Chairman:** May I have a little order, please, because I want to draw this to a close pretty soon.

**Dr. Ollivier:** You can make a crime of something that is really immoral or criminal, but you can make it by amending the Criminal Code. You cannot create a crime in a private bill. You could exempt them, perhaps, from those nuisance clauses, but you cannot force them to obey the law and to observe the law, as I understand it. I do not think it is relevant to the Bill, anyway.

**The Chairman:** I have allowed as much latitude as possible on this discussion. I am going to...

**Mr. Allmand:** I have a few points I want to make.

**The Chairman:** Just a question, Mr. Allmand; no statements.

**Mr. Allmand:** You let Mr. Rock continue for quite a while. I will ask my question of Dr. Ollivier.

Dr. Ollivier, is it not true that in our Railway Act and in our acts regulating air transport we have regulations and rules enforcing safety regulations on railroads, airlines and other means of interprovincial transport to protect the public against measures which may be harmful to their health, etc.?

**Dr. Ollivier:** In the general acts.

**Mr. Allmand:** This is a Bill which deals with a very noxious substance—sulphur. Sulphur is the main reason for this Bill. It is not an ordinary type of substance. Mr. Byrne said that when you light a match you put sulphur in the air, and be that correct, that is the reason for "undue pollution". We feel that the pollution would have to be of a measure that would be harmful to health.

I do not think because of those reasons, that this amendment is irrelevant. Does it not compare with the regulations that we have in other transportation bills enforcing safety regulations on those transportation facilities, airlines and railroads. Is it not a similar provision?

**Dr. Ollivier:** There is the difference that the provisions of which you speak in the Railway Act and in other acts or provisions in general acts are not imposed on one corporation in particular by a law of exception; they are provisions that apply to everyone, including these people.

If you wish to stop pollution do not try to do it by putting provisions in each and every act respecting pipelines, or respecting any

other thing. You have to have a general law which would apply to everyone.

**The Chairman:** Mr. Stafford will be the last speaker.

**Mr. Stafford:** I just want to make one point which I mentioned earlier. We are all in favour of eliminating air and water pollution but the only way we can do this is to take the pollution which would come under federal jurisdiction and pass a statute with the appropriate penalties. Because to make this effective we would have to have the proper penalties in the act; and it would be a rather isolated instance of pointing at one company rather than at all of them. Is that not right?

**Dr. Ollivier:** Yes I would think so. Otherwise, under pretext of amending this act, you are bringing in colourable legislation to amend the Criminal Code.

**The Chairman:** Dr. Ollivier and members of the Committee, thank you.

As I said, I wanted to give as much latitude as possible to the discussion on this amendment, but my view on it, after hearing discussion and having assured myself, is that the motion is irrelevant and out of order. I so declare, on the basis of the arguments put forward by Dr. Ollivier and others.

Shall Clause 5 carry?

Clause 5 agreed to.

Preamble agreed to.

Title agreed to.

**The Chairman:** Shall I report the bill as amended?

**Some hon. Members:** Agreed.

**The Chairman:** I want to thank Mr. Burke-Robertson, and Mr. Ritchie for being with us again. We are adjourned until November 28 when we will consider two small pipeline bills, S-16 and S-17, which are of a very local nature and should not take us too long.

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HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

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TUESDAY, NOVEMBER 28, 1967

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Respecting

Bill S-16, An Act to incorporate Cabri Pipe Lines Ltd., and  
Bill S-17, An Act to incorporate Vawn Pipe Lines Ltd.

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WITNESSES:

*From Cabri Pipe Lines Ltd.,* Mr. A. J. Cressey; *From Vawn Pipe Lines Ltd.,* Mr. Robert Matheson, Q.C.; and Mr. R. W. McKimm, Parliamentary Agent.

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STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:*

*Vice-Chairman:* Mr. H. Pit. Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Émard,  
Mr. Groos,

Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-Huron*),  
Mr. Jamieson,  
Mr. Langlois  
(*Chicoutimi*),  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nugent,

Mr. Orlikow,  
Mr. Pascoe,  
Mr. Reid,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—(24).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

TUESDAY, October 31, 1967.

*Ordered*,—That Bill C-113, An Act to incorporate Commercial Solids Pipe Line Company be referred to the Standing Committee on Transport and Communications.

THURSDAY, November 9, 1967.

*Ordered*,—That the following Bills be referred to the Standing Committee on Transport and Communications: Bill S-16, An Act to incorporate Cabri Pipe Lines Ltd.; Bill S-17, An Act to incorporate Vawn Pipe Lines Ltd.

THURSDAY, November 23, 1967.

*Ordered*,—That the name of Mr. Groos be substituted for that of Mr. O'Keefe on the Standing Committee on Transport and Communications.

*Ordered*,—That Bill S-26, An Act respecting Trans-Canada Pipe Lines Limited be referred to the Standing Committee on Transport and Communications.

MONDAY, November 27, 1967.

*Ordered*,—That the names of Messrs. Reid and Langlois (*Chicoutimi*) be substituted for those of Mr. Macaluso and Mrs. Rideout on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

TUESDAY, November 28, 1967.  
(12)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Vice-Chairman, Mr. Lessard, presiding.

*Members present:* Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Émard, Deachman, Howe (*Wellington-Huron*), Lessard, McWilliam, Nugent, Pascoe, Reid, Rock, Saltsman, Southam, Stafford—(17).

*Also present:* Mr. Jorgenson, Sponsor of Bills S-16 and S-17.

*In attendance:* From *Cabri Pipe Lines Ltd.*, Mr. A. J. Cressey; from *Vawn Pipe Lines Ltd.*, Mr. Robert Matheson, Q.C.; and Mr. R. W. McKimm, Parliamentary Agent.

The Committee had for consideration Bill S-16, An Act to incorporate Cabri Pipe Lines Ltd., and Bill S-17, an Act to incorporate Vawn Pipe Lines Ltd.

The Vice-Chairman called on the Sponsor who introduced the Parliamentary Agent, Mr. McKimm, who made brief introductory remarks. Mr. McKimm then introduced Mr. Cressey.

Mr. Cressey responded briefly to questions of the Members regarding Bill S-16.

Clauses 1 and 2 were agreed to.

On Clause 3, on motion of Mr. Cantelon, seconded by Mr. Byrne,

*Resolved*,—That, for the purpose of levying the charges provided by Standing Order 94(3), the proposed capital stock consisting of four million shares without nominal or par value, be deemed to have an aggregate value of four million dollars (\$4,000,000.00).

Clauses 3, 4, and 5 were agreed to.

On Clause 6, Mr. Cantelon moved in amendment that the words "and solids" on line 32 be deleted. There being no seconder for the motion, it was withdrawn.

Clauses 6, 7, 8, 9, 10, and 11 were agreed to.

The Preamble, Title, and the Bill were agreed to, and the Vice-Chairman was instructed to report Bill S-16 to the House without amendment.

The Vice-Chairman called Bill S-17, and introduced Mr. Robert Matheson, Q.C., who made an opening statement regarding the similarity of the Bills under discussion.

After questioning, Clauses 1 and 2 were agreed to.

On Clause 3, on motion of Mr. Cantelon, seconded by Mr. Émard,

*Resolved*,—That, for the purpose of levying the charges provided by Standing Order 94(3), the proposed capital stock consisting of four million shares without nominal or par value, be deemed to have an aggregate value of four million dollars (\$4,000,000.00).

Clauses 3, 4, and 5 were agreed to.

On Clause 6 being called, it was moved by Mr. Cantelon, seconded by Mr. Saltsman, that Clause 6 be amended by deleting the words "and solids" from line 32. After debate thereon, the motion was negatived.

Clauses 6, 7, 8, 9, 10, and 11 were agreed to.

The Preamble, Title, and the Bill were agreed to, and the Vice-Chairman was instructed to report Bill S-17 to the House without amendment.

At 10.40 o'clock a.m. the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

## EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, November 28, 1967.

• (9:43 a.m.)

**The Vice-Chairman:** Gentlemen, I see a quorum, We have for discussion this morning two bills, Bill S-16 and Bill S-17. The sponsor of the bills is Mr. Jorgenson and I would ask Mr. Jorgenson to present the guests this morning.

[Translation]

**Mr. Émard:** Before we start, Mr. Chairman, I see that the brief which has been presented this morning is a rather technical one. I would have appreciated having a French copy of it. Its subject is very difficult for an English-speaking person to understand, so you can imagine how much more difficult it is for someone whose knowledge of English is limited.

[English]

**The Chairman:** Do we have a copy in French of this Bill?

**The Committee Clerk:** Yes, Mr. Émard has it in front of him.

[Translation]

**Mr. Émard:** Excuse me I have another brief in hand. Could you do something about this one too, Mr. Chairman, since it is very difficult.

**The Vice-Chairman:** Very well. Mr. Jorgenson?

[English]

**Mr. Jorgenson:** Mr. Chairman and gentlemen, both these bills received second reading in the House of Commons on November 9, and prior to that were considered by the Senate Committee on Transport and Communications. This morning we have with us Mr. Ward McKimm, a barrister of the City of Ottawa, who is acting as parliamentary counsel for both of these companies, and I would ask Mr. McKimm to introduce the other two gentlemen representing the companies.

**The Vice-Chairman:** Mr. McKimm?

**Mr. R. W. McKimm (Parliamentary Agent):** Thank you, Mr. Jorgenson. Mr. Chairman and hon. members, the first bill before you,

dealing with Cabri Pipe Lines Ltd., has been prepared in the proper legal form and is virtually the same as other bills which have been before this Committee and have passed through the House. All advertising and affidavits, I am advised, have been filed and have been completed as required.

As you will note in the Bill, its sponsors are all prominent Alberta executives, all well experienced in the oil and gas industry, including exploration as well as transportation of oil and gas and their products.

The President of Cabri is Mr. Stanley Milner of Edmonton, who is President of Chief-tain Development Company Limited. He is very active in the West and prominent in other related companies, including the Blue Crown Petroleums Limited and Lloydminster Gas Co. Limited.

The object of the Cabri bill is to authorize this company, if incorporated, to construct and operate a pipe line interprovincially between Saskatchewan and Alberta near Lloydminster. By virtue of the interprovincial aspect the requirement for federal incorporation is obvious.

The powers of the Company are, of course, to carry out these objects, subject to the approval and direction of the National Energy Board under the powers vested in it by the National Energy Board Act. It is proposed that the Company be controlled and owned entirely by Canadians, and be financed by Canadians.

With those very brief comments, it is my privilege to introduce to you, first of all—and I am dealing only with Cabri, if that is convenient to the Committee—Mr. John Cressey from Edmonton, who is counsel for the Company, and lawyer expert in this field, if not in other fields. I am sure Mr. Cressey will be able to answer any specific questions that you may have relative to this Bill.

**The Vice-Chairman:** We have no brief this morning but I understand Mr. Cressey is going to give us a short briefing on the matter. Mr. Cressey.

**Mr. A. J. Cressey (Cabri Pipe Lines Ltd.):** The application by Cabri Pipe Lines for an interprovincial charter is to enable Cabri to



construct a pipe line facility from wells in the province of Saskatchewan to transport gas across and through to the province of Alberta storage wells, to be used as a peak shaving device in the supply of natural gas to the city of Lloydminster and its surrounding area.

The gas wells are produced at a uniform base all year round and the excess production of gas during the summer from the wells is put into storage wells in the province of Alberta, and then we draw down from that storage to meet the peak load situation during the winter, thus allowing production from an additional well. That essentially is the plan of the Company.

**Mr. Cantelon:** First of all, Mr. Cressey, I am rather intrigued by the name. Why did you call it Cabri Pipe Lines? The only Cabri I know is quite a long distance away from Lloydminster, and it happens to be in my constituency.

• (9:50 a.m.)

**Mr. Cressey:** Mr. McKimm pointed out that he was not sure about my qualifications in other fields, but I have been involved in pipe line business for some years, and I was engaged in the pipe line facilities constructed through Cabri. There is always the problem of seizing upon a name that has not been used in some other context by some other company in Canada, and I thought I was fairly safe in picking the very small community of Cabri.

**Mr. Cantelon:** It is a very nice community. If the pipe line is as nice as Cabri it will be all right!

How large is this pipe line going to be? What will be the bore of the pipe?

**Mr. Cressey:** The initial capacity we are looking at is that of a four-inch pipe line, if one well is producing; but it could well go well beyond that.

**Mr. Cantelon:** How many miles do you intend to build to start with?

**Mr. Cressey:** The additional distance between Colony # 1 well and the storage facility in the province of Alberta will be about 18 to 20 miles. I cannot give you the exact footage of it.

**Mr. Cantelon:** It is very short, then?

**Mr. Cressey:** Yes; but that is just the initial well. The concept would grow beyond that. This is just what I am talking of initially.

**Mr. Cantelon:** Another thing that I am rather interested in—and this is something I have been debating with other people—is that although you tend, from what I gather, just to move gases, you are asking, *carte blanche*, to move gases, liquids and solids as shown in line 32 of clause 6.

**Mr. Cressey:** Yes, this is correct. The reason for doing this is to enable the Company to have sufficient authority to be able to move the commodities that will be moved from the production areas in the oil and gas industry in the future. That is the simple reason.

**Mr. Cantelon:** What disturbs me is that if we give every pipe line the right to move almost anything we may find in the future that there are so many pipe lines capable of moving solids that it will present a rather difficult problem for the Canadian Transport Commission to handle.

**Mr. Cressey:** The National Energy Board, of course, will regulate what commodity the Company will be allowed to transport inter-provincially.

**Mr. Cantelon:** I understand that; but that still takes authority and control away from Parliament. This is what disturbs me about this particular premise. However, I could not get anybody to support my ideas on this in the past, and probably I will not today either.

These are all my questions, Mr. Chairman.

**Mr. Rock:** You mentioned previously that you have been involved in many other pipe lines. How many pipe line companies are you involved in?

**Mr. Cressey:** At the present time?

**Mr. Rock:** Yes. Excuse me, you are the attorney for the Company?

**Mr. Cressey:** That is correct.

**Mr. Rock:** I see. You are not a shareholder in this company, then?

**Mr. Cressey:** No, sir.

**Mr. Rock:** Is the gentleman beside you one of the principals?

**Mr. Cressey:** No, sir.

**Mr. Rock:** He is with the other pipe line, Vawn.

**Mr. Cressey:** He is making an application for Vawn Pipe Lines.

**The Vice-Chairman:** We have two pipe line companies before us this morning.

**Mr. Rock:** Yes, I understand that, Mr. Chairman.

Is there present anyone else who is involved in this one?

**Mr. Cressey:** No, sir.

**Mr. Rock:** Just you as the advocate.

**Mr. Cressey:** That is right, sir.

**Mr. Rock:** Are those who are the principals of this company involved in other pipe lines?

**Mr. Cressey:** Yes, sir.

**Mr. Rock:** Why are they forming this new company? They could go ahead through another company and get the same powers.

**Mr. Cressey:** The other companies are provincial pipe lines. This is interprovincial.

**Mr. Rock:** This is the first time they have asked for a federal charter?

**Mr. Cressey:** Yes. They are not involved in federally-incorporated pipe lines.

**Mr. Allmand:** Sir, you said that you were asking for more powers because it would be an interprovincial pipe line. I notice in clause 6 that you are also asking for powers for international pipe lines.

**Mr. Cressey:** Yes; the international feature has been included because it is very difficult to predict where the markets of the future will be and consequently it has been a standard custom in the case of pipe line companies to loop them both interprovincially and/or internationally.

**Mr. Allmand:** I notice that the powers that you are asking for in clause 6 go much beyond what you describe. The immediate object of the company would be to transport the product from Saskatchewan to the area of Lloydminster.

**Mr. Cressey:** Yes.

**Mr. Allmand:** Did you also ask for permission to transport gas as liquids and solids?

**Mr. Cressey:** Right.

**Mr. Allmand:** And also for processing, refining, treating, etc., which is more than just a pipe line.

**Mr. Cressey:** That is right.

**Mr. Allmand:** You want all-embracing powers for this company to transport liquids, solids and gases; to process; and to ship to the United States; and so forth.

**Mr. Cressey:** Yes, that is correct.

**Mr. Allmand:** Do you know if the company has any plans to expand in this way?

**Mr. Cressey:** We certainly would like to, but we have no fixed plan in this regard at this time. However, to operate a pipe line system, it is necessary to have certain additional capacities; for example, if a producing gas well gets a high gas-oil ratio, or vice versa you automatically move from the transportation of a gas to the transportation of a liquid.

**Mr. Allmand:** A final question. In clause 8 you ask to exclude certain sections of the Canada Corporations Act from applying to this Bill. I do not have the Canada Corporations Act with me. Could you tell us just briefly what you are thinking of excluding from the Act?

**Mr. Cressey:** Mr. McKimm has the sections here.

**Mr. McKimm:** Generally speaking, these are rather nominal aspects of the Canada Corporations Act; they do not deal with questions of power; they deal with matters such as—and I can go through them with you if you like—for example, the provision in this Act which does not require a director to be a shareholder is exempted from the provisions of this Bill; this Bill specifically requires that a director must be a shareholder and must beneficially own that share. There are similar provisions of the Canada Corporations Act to that type of provision which are specifically exempted in this Bill so that this becomes an all-embracing Bill when read with the final section of the Canada Corporations Act.

**Mr. Allmand:** You assure the Committee that there is nothing in these exceptions which affects the powers or the—no radical departure?

**Mr. McKimm:** No, nothing whatsoever.

**Mr. Allmand:** Thank you very much.

**Mr. Byrne:** I was just wondering—of course you will be a common carrier.

**Mr. Cressey:** Yes, sir.

**Mr. Byrne:** Either Westcoast Transmission Company Limited, or Trans-Canada Pipe Lines Limited may have been employed to do this transmission for you.

**Mr. Cressey:** Yes. They have the corporate power to do so, subject to the approval of the National Energy Board and the provinces of Saskatchewan and Alberta in this case.

**Mr. Byrne:** You are essentially becoming a corporate entity similar to Westcoast Transmission Company Limited and Trans-Canada Pipe Lines Limited.

**Mr. Cressey:** The corporate structure, yes. Of course not any concept to that magnitude.

**Mr. Byrne:** In future...

**Mr. Cressey:** We would like to think so.

**Mr. Byrne:** That is all.

[Translation]

**Mr. Émard:** Mr. Chairman, I would like to know whether this firm is a Canadian firm.

[English]

**Mr. Cressey:** Yes, certainly. All the shareholders are Canadian and it is our intention of remaining a Canadian company.

[Translation]

**Mr. Émard:** Are you in any way affiliated with American companies?

[English]

**Mr. Cressey:** I am not sure I know what you mean by affiliation. Certainly a large number of the producers in Canada are subsidiaries of American corporations, but there will be no corporate tie whatsoever between American companies and this company at this stage.

**The Vice-Chairman:** Are there any more questions?

Clauses 1 and 2 agreed to.

**The Vice-Chairman:** On clause 3—*Capital Stock*.

• (10:00 a.m.)

**Mr. Cantelon:** I move that for the purpose of levying the charges provided for under Standing Order 94 (3) the proposed Capital Stock consisting of 4 million shares without nominal or par value, be deemed to be worth four million dollars. (\$4,000,000.00).

**Mr. Byrne:** I second the motion.  
Motion agree to.

Clause 3 agreed to.

Clauses 4 and 5 agreed to.

**The Vice-Chairman:** On clause 6—*Power to construct and operate pipe lines*.

**Mr. Cantelon:** I move that on page 2, clause 6, line 32, we strike out the words "and solids".

**The Vice-Chairman:** Do you have a seconder, Mr. Cantelon?

**Mr. Cantelon:** As I have said before, I think the powers we are giving under these acts are too wide, and I am doing the same thing that I did with the last one.

**The Vice-Chairman:** Do you have a seconder, Mr. Cantelon? I declare the amendment lost.

Clauses 6 to 11 inclusive agreed to.

Preamble agreed to.

Title agreed to.

**The Vice-Chairman:** Shall I report the Bill?

**Some hon. Members:** Agreed.

**The Vice-Chairman:** I will now call on Mr. Matheson on Bill S-17. Mr. Matheson, do you want to give a resumé?

**Mr. McKimm:** Perhaps before Mr. Matheson speaks to you, I might just comment...

[Translation]

**Mr. Émard:** Mr. Chairman, I did not quite catch the name. Was it Matheson or Anderson?

**The Vice-Chairman:** It was Matheson.

[English]

**Mr. McKimm:** The Bill respecting Vawn Pipe Lines Ltd., for your information, is exactly the same as the Bill respecting Cabri. It is drawn in exactly the same way and, as I indicated before, follows the same form of bill which has been passed by this Committee and the House on previous pipe line cases. The advertising has been completed as required and reported to you. The incorporators, again in this case, are all different people and there is no relation between the two companies Cabri and Vawn. They are not related companies, nor are the principals related. All of the principals are experienced businessmen who live in Edmonton and are Canadians. The object of this company is exactly the same, except that the purport of



this Bill would be to authorize the incorporation of a company to carry the oil and gas products across an international boundary; that is, between Alberta and British Columbia.

**The Vice-Chairman:** An interprovincial boundary.

**Mr. McKimm:** I am sorry, an interprovincial boundary. Thank you.

The powers are exactly the same and the financing comments which I made earlier would be the same; that is, it is an entirely Canadian-owned operation. I would like to introduce Mr. Robert Matheson, also of Edmonton, who is the counsel for this company and knowledgeable in the matter. I am sure that he will be able to answer all your questions.

**Mr. Robert Matheson, Q.C. (for Vawn Pipe Lines Ltd.):** Mr. Chairman and gentlemen, the basis on which this company was conceived was that in the northwest corner of Alberta there has been a tremendous additional amount of exploration and development activity. At the moment, as you all know, the great bulk of the product that is produced in that area is going south and east in the Rainbow pipe line. We, as a group, can see that quite likely as the development gets closer to the west boundary of Alberta, it is going to be quite well worth while to be able to transport that across the Alberta-British Columbia boundary and tie into the existing pipe line facilities flowing south and into the Vancouver area, rather than to tie into the Rainbow pipe line. On this basis we felt that as a group of local Edmonton businessmen and knowing that this activity is going ahead we want to be in a position to be able to serve that market which is gradually developing and move the product west rather than south through the facilities of the Rainbow Pipe Line Co. Ltd.

**Mr. Cantelon:** I would like to ask you somewhat the same questions I asked Mr. Cressey. How large do you intend to make the bore of this pipe line?

**Mr. Matheson:** When the pipe line project was conceived it was tied into an exploration and development program that is in process at the moment. As a matter of fact, it is being drilled right now on this one parcel of land which we have knowledge. We simply do not know how much production will be obtained. If we get production, whether it is gas or oil, then the field will have to be

defined. For the purposes of assessing this whole situation we were thinking in the range of a six inch pipe line, which could handle a very substantial volume. However, it will depend on our having located a natural gas or a crude oil field.

**Mr. Cantelon:** How close will this pipe line be to the present pipe line of Rainbow Pipe Line Co. Ltd.?

**Mr. Matheson:** The present Rainbow pipe line—I am now speaking of our concept of the northern portion of the Peace River block—will be about 120 miles west of the Rainbow pipe line, whereas our available transportation facilities in British Columbia, if we could tie into them would only be about 20 to 25 miles inside British Columbia. The well I am speaking of is only three miles from the B.C. border and it is 500 miles north of the international boundary.

**Mr. Cantelon:** If I analyse what you have said correctly, altogether the pipe line will be less than 200 miles long?

**Mr. Matheson:** The pipe line which we conceive?

**Mr. Cantelon:** Yes.

**Mr. Matheson:** At the moment the facility we are examining, and which the company is available to develop, would certainly be less than that. At this time we are probably talking about only 30, 40 or 50 miles, in that area, depending on how far east we have to go of the B.C. boundary to pick up the product and move into B.C.

**Mr. Cantelon:** I think those are the only questions I have, Mr. Chairman.

**The Vice-Chairman:** Mr. Howe?

**Mr. Howe (Wellington-Huron):** This thought just occurred to me. Why does not the present incorporated pipe line that runs down through British Columbia come before this Committee and ask for an extension of their corporate powers in order to go over to the well that you are working on? It would appear as if there are going to be an awful lot of pipe line companies out there.

**Mr. Matheson:** We, of course, very definitely hope that we can develop a pipe line as a Canadian facility. The group that I represent want to build, own and operate a pipe line and if we can get the necessary crude oil or natural gas, then we want to be able to move our own gas.

**Mr. Howe (Wellington-Huron):** You did not get my point, Mr. Matheson. Vawn Pipe Lines Ltd. will operate from your well over to the pipe line that is running down through British Columbia. Is my understanding correct?

**Mr. Matheson:** Yes, that is right.

**Mr. Howe (Wellington-Huron):** I wonder why the pipe line that is at present in British Columbia did not request to come before this Committee or Parliament and ask for an extension in connection with the incorporation of their own subsidiary into Alberta? Is that possible? In order to cross the boundary they would have to come before Parliament.

**Mr. Matheson:** I do not know. I think it is a provincial company, but at the same time I do not think they have foreseen the need. Of course, we hope they do not foresee it until we get our own pipe line incorporated and in business.

**Mr. Byrne:** That is Westcoast Transmission Company Limited, is it not?

• (10:10 a.m.)

**Mr. Matheson:** Yes, it would be Westcoast Transmission, which deals in natural gas. However, there is a provincial company in British Columbia that transports crude oil as well, Western Pacific Products & Oil Pipe-lines Ltd. Westcoast Transmission transports natural gas and they about parallel as they go north through this particular area. As I say, we hope they have not seen and are not involved in the oil and gas exploration and development work in the northwest corner of the province of Alberta.

**The Vice-Chairman:** Are there any further questions? Will Clause 1 carry? Mr. Émard?

[Translation]

**Mr. Émard:** Mr. Chairman, I would like to know to whom the oil well you intend to service belongs.

[English]

**Mr. Matheson:** The oil well that is presently being drilled is by Chieftain Development Co. Ltd., and it is about three miles east of the B.C. border in township 81, range 13, west of the 6th meridian.

[Translation]

**Mr. Émard:** Is this company a Canadian company?

[English]

**Mr. Matheson:** It is incorporated in Alberta and it is Canadian in all respects.

**Mr. Pascoe:** I wondered if this applied to both companies. Would mostly Canadian materials be used for the pipe line and would they be Canadian companies that build the pipe line?

**Mr. Cressey:** May I reply to that, sir? In the case of pipe line construction when one speaks of material one speaks essentially of steel. Steel and rolling pipe for pipe line construction in Canada is being bid on by mills in Canada, but there are certain foreign mills that are also bidding on the supply of pipe in Canada. Certainly line pipe is coming in from Japan and other countries at the present time.

**Mr. Pascoe:** Can you give me a general idea how the prices compare?

**Mr. Cressey:** I am sure in some instances they are meeting the market price because they are selling some pipe, but I could not go beyond that.

[Translation]

**Mr. Émard:** Mr. Chairman, I hope you understand our position when we insist that we would like to see Canadian companies authorized to provide transportation. Personally I believe that transportation companies are public services and I would like their ownership to remain Canadian.

[English]

**Mr. Matheson:** This, of course, is what we want. I would like to point out that many of the pipe lines companies have been American-owned and controlled and we feel there is a very definite need for Canadians to be in this business. This is one of the real reasons you have two pipe line companies before you today.

**The Vice-Chairman:** Does that answer your question, Mr. Émard? Are you finished Mr. Pascoe? Are there any further questions?

**Mr. Cantelon:** Do you intend to have this pipe line cross into the Northwest Territories?

**Mr. Matheson:** No.

**Mr. Cantelon:** I gather not at present, but could there be an extension into some of these new fields that are being developed in the Northwest Territories? Of course, your charter would give you permission to do that.



**Mr. Matheson:** That is right, sir, and I hope, as the petroleum resources are there, that as the oil fields develop we will be in a position to transport the products which are produced, whether it be in the Northwest Territories or Alberta. Obviously the hydrocarbon reservoirs do not respect boundaries and we merely want to be able to transport whatever is produced.

**Mr. Cantelon:** You see, we have no map to go by and I was just trying to orient exactly where this pipe line is. I realize it is in the northwest corner of Alberta and that it is going to cross into B.C. That is what you say you want to do at present. However, are you close enough to the northern boundary of Alberta that there is a possibility of your going into some of these new fields that are being developed in the Northwest Territories?

**Mr. Matheson:** The application, as presently conceived, is 270 miles south of the Northwest Territories boundary, or, as they say, in Township 81, range 13, west of the 6th meridian, which is 270 miles south of the boundary; but the oil fields are being developed down from the Rainbow trend and the whole area has become a very good hunting ground for petroleum and natural gas. Thank you.

Clause 1 and 2 agreed to.

On clause 3: *Capital Stock*.

**Mr. Cantelon:** I move that for the purpose of levying the charges provided for under Standing Order 94 (3) the proposed Capital Stock consisting of 4 million shares without nominal or par value, be deemed to be worth four million (4,000,000).

**Mr. Émard:** I second the motion.

Motion agreed to.

Clause 3 agreed to.

Clauses 4 and 5 agreed to.

On Clause 6: *Power to construct and operate pipe lines*.

**Mr. Cantelon:** Mr. Chairman, I make the same amendment that I made previously, that on page 2, clause 6, line 32, we strike out the words "and solids".

**The Vice-Chairman:** Do you have a seconder, Mr. Cantelon?

**Mr. Saltsman:** May I ask Mr. Cantelon for his reasons for that?

**Mr. Cantelon:** Every one of these pipe lines that have been placed before us in the last little while—as a matter of fact, for the last three of four years—have been asking, *carte blanche*, for power to move practically everything and under any circumstances. They can then move solids or anything else. The only control on them is that they have to go to the Board of Transport Commissioners, or the new Commission, or to the Energy Board to get permission to get out of a business which, in my view, changes completely when they move from liquids to solids. I do not think it should be the prerogative of the Transport Commission or of the Energy Board to decide. Having in view all the economic implications, the decision should be the responsibility of Parliament through this Committee.

Therefore, I would like to have these provisions stopped. We cannot very well remove them from the others, but we can stop extending them now.

**The Vice-Chairman:** Order, please. Mr. Cantelon, if you have no seconder there is no motion, and I do not think discussion on the question should be allowed. Do you have a seconder, Mr. Cantelon?

**Mr. Cantelon:** Yes.

**Mr. Saltsman:** I will second that.

**The Vice-Chairman:** Mr. Deachman?

**Mr. Deachman:** I would like to speak on this motion. These people have appeared before us for the incorporation of a pipe line as a common carrier. I see no reason for Parliament's placing restrictions upon a common carrier and making it more difficult for the common carrier to do business. In my opinion we would only be throwing unnecessary blocks in the way of a company which is attempting to set up a corporation in the business of carrying materials, whatever they may be, either in gaseous, liquid or solid form, through a pipe line. It would be ridiculous for us to say that we were arbitrarily going to block the carrying of solids, just as I think it would be ridiculous to say that we were not going to allow them to carry gas, but would let them carry liquids or solids through it. It would be equally ridiculous to say that we would not let them carry liquids through it, but would allow them to carry gases and solids. Therefore, I think we should let it pass in the form in which it is, if we are going to allow the Bill to pass at all.



**The Vice-Chairman:** Mr. Rock.

• (10:20 a.m.)

**Mr. Rock:** I cannot comprehend, Mr. Chairman, the seconding of the motion by Mr. Saltsman. He has just voted on the other bill and passed the same item. We have already taken this decision, and decisions under the same act have been taken in the past. I cannot see how this Committee can now condemn this one company by having the idea of its being restricted only to liquids. This seems to me to be ridiculous, and I am against it.

**The Vice-Chairman:** Mr. Émard.

[Translation]

**Mr. Émard:** Mr. Chairman, I do not agree with Mr. Rock's remarks. The only reason I can see for Mr. Saltsman to second the motion is to give Mr. Cantelon a chance to explain his views.

**Mr. Rock:** He explained before he was seconded, anyway.

**Mr. Émard:** I would like to add that I agree with what Mr. Deachman said. If we are to encourage Canadian industries to compete with American industries we must not impose restrictions on them which would be to their disadvantage. I am in complete agreement that they should be granted the same powers already granted to other companies and which American industries presently have.

[English]

**Mr. Saltsman:** Mr. Chairman, perhaps the Committee is entitled to know my reason for seconding Mr. Cantelon's motion.

Essentially, these two bills are the same. I let the first one go because this Committee is not going to be deciding anything here; it is discussing it. Mr. Cantelon, in my opinion, has a right to have a seconder so that he can express his point of view.

I see what he is getting at and I think it is a very important point that he is making. In effect, this is not just permission for a pipe line; this is permission for a transportation system. It is really no different from giving permission to run a railway, because at the present time it is our railroads that are carrying the solids rather than the liquids and the gases. For that reason it has very wide implications in our whole transportation system; it affects the operation and viability of our railroads; and it deserves a lot more consideration than the rather flippant

remarks that were made on it a short while ago.

**Mr. Deachman:** Mr. Chairman, on a point of order. I do not believe that my remarks were any more flippant than are those of the member who is now speaking. I would like to have you rule in regard to flippancy.

**The Vice-Chairman:** I think, Mr. Saltsman, we will take the word out.

**Mr. Saltsman:** I am sorry that Mr. Deachman responded to that because I was not referring to him. If he feels that my remarks are...

**The Vice-Chairman:** Order, please.  
Is the Committee ready for the question?

**Mr. Pascoe:** Mr. Chairman, I think I should have...

**Mr. Saltsman:** Mr. Chairman, I still have the floor, I believe?

**The Vice-Chairman:** Yes.

**Mr. Saltsman:** Certainly if the gentlemen who have raised the point of order feel that some aspersion has been cast on their characters as a result of my remarks, I have no hesitation correcting them. I do think, however, that it is of great importance that Mr. Cantelon have an opportunity to express his point of view.

**The Vice-Chairman:** Mr. Cantelon.

**Mr. Cantelon:** Mr. Chairman, I dislike bringing this forward, but in the past, when we have passed these, I have had a feeling of guilt for taking what I think was a rather superficial view of this particular provision for the movement of solids. I say it is a superficial view because, as Mr. Saltsman has very aptly said, the provision has very important implications in the carrier business and it is bound, in the long run, to have an effect. Having dozens of these pipe lines able to move solids is bound to affect the operations of our railroads and, consequently, our whole transportation system.

If these considerations are not sufficiently important economically to be considered by Parliament and this Committee, then I must have a rather peculiar interpretation of what are the responsibilities of Parliament and of this Committee.

I know that my suggestion places a restriction on this company, as Mr. Deachman has

said, but if we have been giving extra privileges to companies in the past—privileges which we now feel should not have been granted—to continue to grant them to other companies does not make what has been done in the past any more correct, nor does it mean that we should feel that because we have done this in the past we should do it now.

Therefore, after a great deal of thought, and some worry, I decided to make this motion. I can assure my French-Canadian friend that I do not want to restrict that the right of any Canadian company to have the same privileges as any other company—and it seems to me that this is indeed a Canadian company and that we should give it every privilege that can be granted—but I still do not think that this privilege should be granted to any further pipe line company, and it is on that basis that I made my motion.

**The Vice-Chairman:** Mr. Howe?

**Mr. Howe:** These gentlemen have had a great deal of experience in the pipe line business in Western Canada, and there are many of us who have not had that privilege. At what stage of development, Mr. Matheson, is the transportation of solids through pipe lines?

**Mr. Matheson:** There has been a great deal of scientific work done on the transportation of solids in the Province of Alberta.

The Research Council have come out with what looks like a nearly economic method of transporting solids through pipe lines. I would like to point out, however, that even now there is a certain part of the crude oil that in fact is ultimately taken out and it becomes a solid. This is one of the things with which we are faced. At crude oil extraction plants you end up with a residue which is made into coke which, in fact, is almost a solid. At present the actual transportation of solids as such by pipe line has developed to a point where it is going to be an economic method of getting out a product. I might also point out that in the particular area we are discussing that railroading would be most unrealistic, if this is of concern, and certainly I am sure that pipe lining from petroleum reservoirs would be the only economic way of dealing with it.

**Mr. Howe:** You said that the National Research Council has done a lot of scientific research on this.

**Mr. Matheson:** The University of Alberta Research Council.

**Mr. Howe:** Are they carrying any other solids or has it been economically feasible to carry any other solids such as wheat, asbestos or any other minerals such as potash?

**Mr. Matheson:** They have been working with carrying potash, sulphur and wheat in capsules in pipe lines. They are suspended in a flowing medium but transported in capsules. This is definitely on the way to becoming a very worthwhile method of transporting products.

**The Vice-Chairman:** Mr. Byrne.

**Mr. Byrne:** Mr. Chairman, in case anyone should think that I am not concerned about the displacement of railway employees, I think I should say a few words now that the matter has been discussed at such length.

**Mr. Matheson:** I am quite sure, and as a matter of fact I am quite confident, that if Mr. Cantelon was of the opinion that wheat could be moved economically by pipe line, that is, cheaper than by rail, we would have no hesitation in leaving this bill as it stands. If we now take the position that we cannot jeopardize the position of the railways when we are chartering competing companies, what was the position that was taken when we chartered air lines? Air lines were then moving into one of the principal business sections of the railway companies. Surely we are not going to take the position that we are not going to allow any company to become incorporated unless we are assured that it is not going to infringe upon the business prospects of another service. For this reason I think we certainly should leave this bill as it is as is the case in all other corporate pipe line companies.

**The Vice-Chairman:** Mr. Nugent.

**Mr. Nugent:** In reply to Mr. Saltsman, I think it essential to merely point out that this Committee is not saying that this company can go into the transportation of solids by pipe line. We are simply incorporating this company as a body and it will then be able to apply to those technical boards which the government has set up to take into consideration all of these factors and, with all the facilities and all the arguments say in what activity the company can engage in the area. They will consider the form of transportation, what must be transported, the extent of



competition, and so on. I submit that we are getting ourselves in much too deeply here. We cannot possibly answer these questions. The government has set up a very effective safeguard so that the operations these companies carry out will suit the environment, the economic feasibility, and so forth. I suggest all we are doing is allowing them to be placed in a position where, if the National Energy Board or the provincial boards that they have to deal with decides this is a service that will help the province, they then have the power to meet the needs of that area.

**Mr. Saltsman:** Mr. Chairman, I think Mr. Cantelon has opened up a very interesting and positive area of discussion but, as Mr. Nugent has also summed up very well, we have just set up the new Canadian Transport Commission which will have a responsibility in this area, and there is also the National Energy Board. I would like to ask the witness from his experience and study of this matter what has been done under similar circumstances in the United States, how far have they progressed with the movement of solids and what the Interstate Commerce Commission in the United States have done regarding this very matter.

• (10:30 a.m.)

**Mr. Matheson:** Mr. Cressey has had more association with pipe lines than I have had and more experience with the exploration and development activity in oil and gas, and possibly he would like to answer that question, sir.

**Mr. Cressey:** I believe the initial project in North America for the transportation of solids was the coal line which was built in Pennsylvania almost ten years ago. It has been in and out of operation. Research is going on there. It is similarly regulated by the Interstate Commerce Commission and various other regulatory bodies in the United States. However, the economics of the transportation of solids per se are still being explored in the United States, as they are in Canada, but we would like to think that we are ahead of them in our research into this area.

**Mr. Saltsman:** Thank you. This is part of the answer alright. I was wondering about this because, after all, problems arise in Canada—we have often found examples of

this in Parliament—and they are not just common or local to Canada. These problems have been explored to some degree in other countries and in the United States, of course, as it is in the gas and oil business to an even greater extent than we are, and they are pioneering the same field. I was wondering if they were any further advanced than we are.

**Mr. Cantelon:** In my opinion I think the future does not necessarily lie in the concept of these being separate entities. I think the future will probably lead us to the point where all the commodities will be within the same pipe line.

**Mr. Saltsman:** Mr. Byrne mentioned the fact of the air lines coming into the picture on competitive transportation. In time big companies like the CPR or the CNR, if this research develops as a practical means of moving solids through pipe lines, will probably get into the pipe line business so that they can maintain their competitive position. I assume this is probably what will develop in the future.

**The Vice-Chairman:** Is the committee ready for the question?

**Mr. Pascoe:** Mr. Chairman, I have a question regarding the possible movement of solids by pipe line. These two companies envisage the use of four or six inch pipe line for moving gas. Are these pipe lines suitable for moving solids or would these companies have to go to greater expense to change them over?

**Mr. Matheson:** I would say that under the present concept the pipe line facilities would not be big enough to handle solids, although I could refer you to the Husky Oil pipe line, which runs from Lloydminster down to Hardisty in Alberta, where they are in effect moving a solid by moving the asphalt-based crude out of Lloydminster by taking up a condensate, mixing it with the asphalt-based crude at Lloydminster and then taking it down to Interprovincial and bringing it into Ontario. This in effect is a movement of solids and we might easily get into that same type of situation, depending on the oil that might be discovered in the area in question.

**Mr. Pascoe:** What is the size of their pipe line?



**Mr. Matheson:** They are transporting through two eight inch lines. They take the condensate to Lloydminster in one eight inch line and bring it back to Hardisty in another eight inch line.

**The Vice-Chairman:** Mr. Cantelon.

**Mr. Cantelon:** I would like to comment on the interpretation that I am afraid Mr. Byrne has given to my views on this matter.

I want to say first of all that I consider myself a progressive, Mr. Byrne; perhaps one of those Prairie radicals that are not in very great favour at the present time.

**Mr. Byrne:** I am sure you must be teaming up with Mr. Saltzman.

**Mr. Cantelon:** I consider that a compliment. My idea, of course is not that we should hold up progress—this is far from my mind—but that the control should be vested in Parliament to this Committee, not through the Transport Committee and the National Energy Board.

**Mr. Saltzman:** Mr. Chairman, a short comment before we vote; I would like to have it on the record as far as the gentlemen are concerned who are appearing before us, that there is no intention to single out one company rather than another for the purpose of this discussion. They are both really in the same boat, but rather than having a discussion on both of them I felt that this particular kind of discussion should take place at some stage during the presentation of these gentlemen.

I would like to point out to Mr. Byrne that my concern is not only with the use of labour; in many ways I am far more concerned with the use of capital in this country. This is a country that is supposed to be capital hungry. It is always looking for capital. It is quite obvious that the government is having serious financial difficulties now as a result of the unavailability of capital or the high cost of capital.

It is most important for a country like Canada to be able to use a rare resource like capital in the best possible way and particularly as it applies to the transportation industry. Capital is not free. It may save some money in terms of moving one commodity but if the result is that we have to abandon capital in some other area, or it increases the

cost of moving other commodities, these are things that have to be taken into consideration.

For that reason I felt that Mr. Cantelon's amendment—that stimulating discussion that took place this morning—was very valuable and surely, Mr. Chairman, this Committee is something more than a rubber stamp. This Committee should not say: "Well look, it is none of our business; the transportation board is going to look after it". We are members of Parliament elected by the people to look into these matters and I think it has been very useful that we have had an opportunity to do exactly that.

**The Vice-Chairman:** Is the Committee ready for the question? I will ask the Clerk to read the amendment.

**The Clerk of the Committee:** It is moved by Mr. Cantelon, seconded by Mr. Saltzman, that clause 6 be amended by striking out the words "and solids" in line 32.

**The Vice-Chairman:** Will those in favour of the amendment please raise their right hand.

Those opposed?

I declare the motion lost.

Clauses 6 to 11 inclusive agreed to.

Preamble agreed to.

Title agreed to.

**The Vice-Chairman:** Shall I report the bill?

**Some hon. Members:** Agreed.

**The Vice-Chairman:** Thank you gentlemen, you have done very well. Mr. Émard?

[Translation]

**Mr. Émard:** Before ending the meeting Mr. Chairman, I would like to repeat the request I made incorrectly at the beginning of the meeting. Would it be possible to have a French translation of the brief on the DCF system which will be presented next Thursday, I think.

As I mentioned, it is a very technical brief and it is doubly difficult to understand in a language that I do not speak perfectly.

**The Vice-Chairman:** The Clerk tells me he will send it immediately to the translation bureau and perhaps you will have a copy for the next meeting, Mr. Émard.

[English]

**Mr. Rock:** When notices of Committee meetings are sent out to members, would it be possible to include the names of witnesses that are to be heard? Some committees do that.

**Mr. Deachman:** That would make an awful lot of work for the Committees Branch to

undertake. They would have to employ additional staff.

**The Vice-Chairman:** Well, Mr. Rock, we will see what can be done next week and we will let you know.

I want to thank you gentlemen for your presence this morning, and also Mr. Jorgenson, the sponsor of the Bill.

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OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations  
and/or a translation into English of the French.

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Cost varies according to Committees.

Translated by the General Bureau for Trans-  
lation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House*

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

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THURSDAY, NOVEMBER 30, 1967

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Respecting

Bill C-104, An Act respecting the Bell Telephone Company  
of Canada.

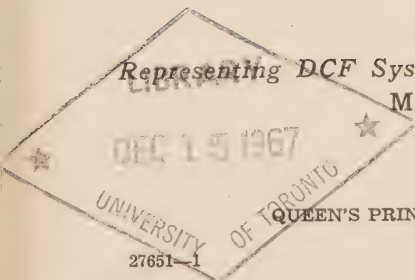
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WITNESSES:

*Representing DCF Systems Limited:* Dr. H. S. Gellman, President;  
Mr. M. V. Holt, Manager.

ROGER DUHAMEL, F.R.S.C.

QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967



27651-1

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,	Mr. Horner ( <i>Acadia</i> ),	Mr. Reid,
Mr. Andras,	Mr. Howe ( <i>Wellington-Huron</i> ),	<sup>a</sup> Mrs. Rideout,
Mr. Bell ( <i>Saint John-Albert</i> ),	Mr. Leboe,	Mr. Rock,
Mr. Byrne,	<sup>a</sup> Mr. Lind,	Mr. Saltsman,
Mr. Cantelon,	Mr. McWilliam,	Mr. Sherman,
<sup>1</sup> Mr. Chatwood,	Mr. Nugent,	Mr. Southam,
Mr. Deachman,	Mr. Orlikow,	Mr. Stafford—(24).
Mr. Émard,	Mr. Pascoe,	

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

<sup>1</sup> Replaced Mr. Jamieson on November 29, 1967.

<sup>a</sup> Replaced Mr. Langlois (*Chicoutimi*) on November 29, 1967.

<sup>a</sup> Replaced Mr. Groos on November 29, 1967.



ORDER OF REFERENCE

WEDNESDAY, November 29, 1967.

*Ordered*,—That the names of Messrs. Chatwood, Lind and Mrs. Rideout be substituted for those of Messrs. Jamieson, Langlois (*Chicoutimi*) and Groos on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*

## REPORTS TO THE HOUSE

THURSDAY, November 30, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### SEVENTH REPORT

Your Committee has considered the following bills and has agreed to report them without amendment:

Bill S-16, An Act to incorporate Cabri Pipe Lines Ltd.

Bill S-17 An Act to incorporate Vawn Pipe Lines Ltd.

A copy of the Minutes of Proceedings and Evidence relative to these bills (*Issue No. 9*) is tabled.

Respectfully submitted,

H. PIT LESSARD,  
*Vice-Chairman.*

THURSDAY, November 30, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### EIGHTH REPORT

Your Committee reported this day Bill S-16, An Act to incorporate Cabri Pipe Lines Ltd., as its Seventh Report.

Clause 3 of the said Bill provides for capital stock of four million shares without nominal or par value.

Your Committee recommends that, for the purpose of levying the charges provided by Standing Order 94(3), the proposed capital stock consisting of four million shares without nominal or par value, be deemed to have an aggregate value of four million dollars (\$4,000,000.00).

Respectfully submitted,

H. PIT LESSARD,  
*Vice-Chairman.*

THURSDAY, November 30, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### NINTH REPORT

Your Committee reported this day Bill S-17, An Act to incorporate Vawn Pipe Lines Ltd., as its Seventh Report.

Clause 3 of the said Bill provides for capital stock of four million shares without nominal or par value.

Your Committee recommends that, for the purpose of levying the charges provided by Standing Order 94(3), the proposed capital stock consisting of four million shares without nominal or par value, be deemed to have an aggregate value of four million dollars.

Respectfully submitted,

H. PIT LESSARD,  
*Vice-Chairman.*





## MINUTES OF PROCEEDINGS

THURSDAY, November 30, 1967.

(13)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Vice-Chairman, Mr. Lessard, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Émard, Deachman, Lessard, Lind, Pascoe, Reid, Rock, Saltsman, Southam, Stafford (15).

*Also present:* Mr. J. P. Nowlan, M.P. and Mr. Heber Smith, M.P.

*In attendance: Representing DCF systems Limited:* Dr. H. S. Gellman, President; Mr. M. V. Holt, Manager.

The Committee unanimously agreed that Mr. Lessard would continue as Acting Chairman in the absence of a Chairman.

On a point of order, Mr. Bell (*Saint John-Albert*) pointed out it was obvious that the brief had been released to the press before presentation to the Committee because a Toronto morning paper had carried a detailed statement on the brief.

The Acting Chairman introduced the President of DCF Systems Limited who made a brief introductory statement and then asked Mr. Holt to review individual cases of pricing practices and client restrictions.

On motion of Mr. Deachman, seconded by Mr. Rock,

*Resolved,*—That the brief of DCF Systems Limited be printed as an Appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-10*).

After questioning the witnesses, the Committee adjourned at 12.50 o'clock p.m. to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, November 30, 1967

**The Vice-Chairman:** Mrs. Rideout and gentlemen is it agreed that I continue to act in the absence of the Chairman?

**Some hon. Members:** Agreed.

• (10:16 a.m.)

**The Vice-Chairman:** We have for consideration this morning a brief from the DFC Systems Ltd. Dr. H. S. Gellman is the President of this Company. I would ask Dr. Gellman to make a short presentation and introduce as a witness Mr. M. V. Holt, Manager. Mr. Gellman?

**Mr. Bell:** Mr. Chairman, before we start I think we should note for the record the article in this morning's *Globe and Mail*. Evidently contrary to our practice the brief was released to the press in advance of the meeting.

**The Vice-Chairman:** I know; it was brought to my attention this morning. I know that all members of the Committee have had this brief for about two weeks. I was not questioned by any newspaperman; I do not know who did it. I do not know whether it was given out by a member, or by the people concerned. We will try to make a survey today, if possible, and we will see what we can do about it. Mr. Gellman.

**Dr. H. S. Gellman (President, DCF Systems Ltd.):** Thank you, Mr. Chairman. We welcome this opportunity to present a brief to your Committee and I would like to begin by introducing the subject to you very briefly and then ask my partner, Mr. Michael Holt, to describe some of the highlights contained in the brief. We understand that each member of the Committee has had access to this brief now for approximately a week or ten days and we are assuming that most members have had an opportunity to read it. Therefore, we will not read the brief verbatim, but we will cover the main points in it.

I would like to begin by explaining why we are doing this. Our firm is a private Canadian company of management consultants. DCF Systems is a member of the Canadian Association of Management Consultants, which is an association of the eleven largest Canadian management consulting firms in this country. DCF Systems, our company, specializes in computer systems and related systems-work for commercial organizations and for many government organizations. In recent years we have found that more and more organizations are trying to use communications systems connected to their computers in order that one branch may communicate with a central computer and in order that each organization using computers may obtain maximum efficiency from these uses.

We have acquired a fair amount of experience in the use of this new technology. We have found, however, that when we recommend an advanced system to our clients, they have an undue amount of difficulty in implementing such a system. Some of these difficulties are natural. With any new technology one has to expect a learning period and teething troubles. However, a lot of the problems we have encountered, we believe, are attributable to the practices of the communications common carriers, and particularly The Bell Telephone Company of Canada.

I would like to say at the outset that we have nothing against The Bell Telephone Company of Canada. We are their customer and we are not complaining about the specific service we obtain in our telephone system. When we learned of the introduction of Bill C-104 in the House of Commons we thought this would be an appropriate opportunity for us to bring information to your Committee which we thought would be useful to the Committee in its deliberations. Our brief is intended to make Parliament aware of some deficiencies in the practices and policies of The Bell Telephone Company of Canada, and to recommend action to rectify some of these deficiencies, which we believe have slowed down the development of advanced data processing systems in Canada.

As independent consultant, DCF Systems does not manufacture or supply equipment of any kind, and we are not affiliated with any communications equipment supplier or common carrier. Therefore, we have no financial or other advantage to gain from the recommended changes to Bill C-104. Our purpose is to improve conditions for our clients and others who use communications facilities for their computer systems.

As I mentioned earlier, we are interested in making it easier for our clients and others to implement some of these advanced systems. It might be argued—and we believe—that if it is easier to implement these advanced systems, more organizations will implement them. It will be better for Canada and, indirectly, we hope it will be better for our consulting business.

May I take a moment just to run through the summary of the brief starting with Section 1 on page 1. We have noted clauses 7 and 8. Clause 7 of Bill C-104 would extend Bell Canada's powers to include all forms of telecommunications equipment and services, presumably including communications satellite systems. Clause 8 of the Bill would give Bell Canada the power to invest in companies other than communication carriers. This clause would permit the company to acquire ownership or control of other companies in various related industries, such as electronics, manufacture of communications equipment or electrical equipment or, in fact, any other industry chosen by Bell Canada.

It is the opinion of DCF Systems that these clauses would enable Bell Canada to establish an effective monopoly in virtually all areas of communications services and equipment. It would also enable it to extend this monopoly into several non-communication fields, particularly in the electronics industry. The effect of this would be a further deterioration in the services and equipment available in Canada today, especially in areas of computer data transmission and other advanced communications systems.

As consultants we have had an opportunity to see at close hand the operations of Bell Canada and the other common carriers. In our opinion Bell Canada has, on occasion, used its existing powers to restrict the development of advanced communications systems in Canada. In so doing it has prevented the establishment of a vigorous Canadian communications equipment and services industry, and it has denied Canada the economic benefit of such an industry.

We have been able to demonstrate that Bell Canada has not developed as much technical competence as would be desired in these areas and it has practised the policy of restraining activity of competitors until it could develop competitive services of its own. It has often practised discriminatory pricing to eliminate competitive offers. In this brief we have documented cases that support these observations, and Mr. Michael Holt will cover some of these cases in a moment.

Basically though, we believe that Bill C-104 should be revised to ensure that Canada has efficient, economical communications facilities and services, along with a competitive communications equipment industry. Some of our recommendations are as follows:

We suggest that clauses 7 and 8 should be eliminated from Bill C-104.

Bill C-104 should also be amended to include a clause requiring Bell Canada to refrain from discriminatory pricing.

We suggest that the Bill be amended to include a clause requiring Bell Canada to develop standards so that others can attach equipment to Bell's equipment.

We suggest that the Railway Act be amended to include a clause that would permit other communications companies to offer special services or facilities where it can be established that existing services are inadequate.

These and other recommendations will now be discussed more fully by Mr. Holt.

**Mr. M. V. Holt (Manager, DCF Systems Ltd.):** We believe the best way to illustrate the validity of the points we make is to take examples case by case and we hope these are self-evident. I think it probably will be best for me to skip through the ones that are listed here in the brief.

In the first case the firm for which we were consulting on a very sophisticated and advanced computer system was in the course of designing a telecommunication system including many different types of circuits, both high speed and low speed. In the course of this work we had negotiations with the various common carriers, in particular Bell Telephone in Ontario, and the western telephone companies as well as the Canadian National Canadian Pacific Telecommunications.

When it became evident that Canadian National were going to be given a contract for a special high speed switch circuit between Edmonton and the eastern part of Canada, the



Bell representative put a great deal of pressure on the client not to use this service. When, on our recommendation the client chose to use this service, they responded with a proposal in written form to match the service offered by Canadian National at exactly the same tariffs, at exactly the same speed and exactly the same delivery dates and prices.

We were a little suspicious of this because the equivalent we were using is part of what is called a broadband switching service that was announced by the railway company about three weeks ago and which received a lot of publicity. Probably you are familiar with it. It enables you to transmit data over long distances at very high speed up to 2400 bits-per-second on a switched basis; in other words you do not have to have a private communication line; you can dial and transmit at high speed. You cannot do this on a conventional telephone system, primarily due to the noise induced in the telephone system by the switching exchanges which are electro-mechanical relays and not suitable for noise-free high speed transmission.

In other words, in order to offer a high-speed switch service you have to have special equipment. This is an extensive system; you have to have special electronic exchanges at each of the major locations across Canada. Bell Telephone does not have this equipment. It is our understanding that they intend to have it, and in order to forestall the Canadian National Canadian Pacific Telecommunications Company from obtaining a large amount of business with their new equipment in which they invested a substantial amount of money, the Bell Telephone are offering what is in effect a private telephone line, which normally costs \$4 a mile a month, for exactly the same cost as the Canadian National are offering their switch data service.

In effect this is unfair to both the end user and the railway companies because they have made a substantial investment in this equipment. It is a definite advance; it is needed both by the computer industry and by clients for other applications; yet Bell Telephone were deliberately reducing the amount of business the railway could hope to get by offering, in effect, a fictitious piece of equipment and using people who are paying that \$4 a mile a month to subsidize people that would be paying 50 or 60 cents a minute or less.

In case 2 on page 6, again this was exactly the same tariff, only this instance took place in Ontario. A company in Northern Ontario needed to transmit data to and from computer terminals in offices across the country on an intermittent or switched basis. Therefore, they did not need a private lease line and they got a proposal from the Canadian National/Canadian Pacific Telecommunications Company for this service. Bell Canada then came back in exactly the same manner as with the western company and made a proposal for what again is fictitious equipment. We made a careful investigation and there was no such physical facility available and again they were using private lease telephone lines at a much lower rate; in effect, charging one person a given rate for the use of the service and charging someone else who is threatening to use competitive equipment a much lower rate for the same service.

Case 3 illustrates some of the difficulties many of our clients and other people with whom we are familiar have had in dealing with Bell Telephone. In this case the trust company was installing a computer credit-checking and accounting system, and needed communication terminals in a large office building which was directly across the street from the one they were then occupying. All they needed was a special multiconductor cable running approximately one-sixteenth mile to connect the computer to the terminals in the building on the other side of the street. They approached Bell Canada. Bell Canada said that it would be quite easy to do this and there would be no problems involved.

Then the company decided to obtain what are called data sets or modems. These are devices which connect a computer to a communication line. They are made by Bell Telephone, they are made by a number of smaller companies and now they are also made by the computer manufacturing companies. This trust company decided to use modems manufactured by the company that was making the computers they were installing, partly to homogenize their equipment but mainly because these modems were less expensive than those offered by the Telephone Company and were technically of superior quality. They informed Bell Canada that they were going to use the computer company's data sets, or modems, and immediately thereafter Bell Canada came back and said it would no longer be possible to run this cable underneath the street and, in fact, it would cost \$25,000 for the cable that they were now going to propose. When the client protested,



the Bell Telephone Company stated that the characteristics of the equipment being manufactured by the computer company were not compatible with the equipment manufactured by Bell Canada. Therefore, a very special cable was involved and engineering specifications were not available so the Telephone Company could not permit the trust company to use the simple cable arrangement they had originally contemplated.

Technically there was no substance to this allegation whatsoever. The technical characteristics of the computer company's equipment were compatible with those of the Telephone Company; there was no technical reason why this cable could not have been run. But again it illustrates a point; when a customer or client tries to use competitive equipment to the Telephone Company they inevitably run into problems in getting circuits from the telephone company or in other areas.

I feel that case 4 is a good example of how the monopoly powers the Telephone Company enjoys can make it difficult for other people, including other large companies such as computer manufacturing companies and other common carriers, to compete with the Telephone Company.

Just to make it clear what we are talking about, you have a computer on one end; you have a terminal equipment or another computer on the other end; in between you have a communications line and on either end of the communications line you have these modems, or data sets, we mentioned before that connect the communication line to the computer. Now, normally one company or one vendor supplies the computer; the telephone company supplies the communications circuit, of course, or the CN/CP, and either the telephone company, a computer company or a third company supplies the data set—the device to connect the computer to the communication line.

Now, no one company except The Bell Telephone Company can offer all three of these things, the communication line, the data set and the computer terminal. No one else is allowed to offer communication circuits except CN/CP. No one else, in practice, is permitted to offer data sets because of the pressure placed on them by the Telephone Company and what we are seeing now is Bell Canada quoting one price for everything; the computer terminal equipment, the data set and the communication circuit.

Therefore, if a company is competing for the terminal equipment business, it is not possible for them to compete on a realistic basis because they are competing against the total price for three things and they can only bid on one part of that system. We feel that this is unfair; it will reduce competition in the communications industry and result in higher prices and poorer service for end users. We feel the Telephone Company should be required to quote separate prices for communication circuits, communication data sets and computer terminal equipment. We have no objection to Bell Telephone manufacturing computer terminal equipment or data sets, or computers themselves for that matter. However, we feel that the competition should be on an equal basis. They should not be able to take advantage of their communications monopoly.

The fifth case on page 9 really is a repeat of the previous case. It is significant in that the use of time-sharing, or using a computer to serve more than one user simultaneously, is growing at such a rate it is predicted that within the next decade computers will be used almost as a utility, just like electricity or telephone services are used now. In this particular area, in order to gain a foothold, Bell Telephone are offering a standard terminal device known as the Teletype ASR 33—this is the standard teletype that you see in offices everywhere—for a fixed price including the communication line cost as long as the terminal is used within a large metropolitan area.

Now this, again, is the same thing—one package price for the communication line, the data set, the innerface and the terminal itself, making it impossible for anyone else to compete with Bell Telephone in this area.

Case 6 is, I think, a good example again of how this is analogous to Case 3, the trust company case, where someone wanted to use Bell Telephone equipment and it was made very difficult for them to use it in the way they wanted to use it. In this case, this is our own firm so we had access to exactly what happened in this case. We ordered two of the same data sets, modems, for our own use in connecting two small computers so that one computer could transmit information to the other and vice versa. This was as a test system for a bigger system we were installing for one of our clients.

We had months of unnecessary delay, we had dozens of telephone calls trying to get information from the Telephone Company

and the unusual part of it was that the Bell Telephone claimed that in order to use these two data sets we had to rent from them a telephone circuit from our office to their switching exchange and back to our office, even though the line was only going to go five feet from one computer to another. We had to run a line from our office two miles to the exchange and back again and pay for that line.

Now, this is completely ridiculous and after several months of argument finally we were permitted to go ahead. We did receive the equipment from Bell Telephone. We noticed that it had come in a box marked "Western Electric, New Jersey". It travelled to Northern Electric in Canada, from there to the telephone company in Alberta that we were dealing with in this particular project, from them back to Bell Telephone in Toronto and finally to us, and all along that route the equipment had never been physically enhanced or in any way tested or touched by any telephone company facility in Canada, but we were not allowed to obtain that equipment direct from its source in the United States.

Now, this is highly inefficient and on a large scale can be very expensive and very time consuming. When finally we did receive the equipment we found that it was wired incorrectly and we were on the telephone for a week trying to find someone in Toronto that would come and rewire the equipment for us. We were not able to, and we were trying to meet a deadline, so finally we opened the equipment which is against the regulations of the Bell telephone but we had purchased the equipment so we felt entitled to do so. We fixed the equipment ourselves using the drawings that had come with it and got it to work and we were finally able to use the equipment.

But on a large scale this can make the difference between a successful project and a disaster. These delays carried out on a large scale can mean six months to a year delay in a large system, excessive costs, and we feel that our clients cannot afford this sort of obstacle.

Those are just six of the cases that we have come in contact with during the past two years which we feel, in reality, constitute the reason for our preparing this brief. We feel that a number of things are required to improve the conditions about which we are complaining. Some of our recommendations

have already been mentioned by Dr. Gellman in the summary.

We feel it is worthwhile calling your attention to some of the regulatory procedures that are now taking place in the United States partly because a large part of this whole computer communications problem is caused by the fact that Bell Canada are pretty well reliant on Western Electric in the United States both for their equipment and their technology. To my knowledge Bell Canada do not make data sets or modems in Canada although there is no reason why they could not. The fact that all the equipment that our clients have used has come directly from the United States would tend to bear this out.

In the United States a number of proceedings are taking place which I think are of interest to this Committee and we have mentioned some of them in the brief and in two cases in particular. The Carterfone case is widely regarded as a precedent-setting decision. The FCC stated—on page 13 of the brief—that:

"The telephone company should be ordered to file a tariff that affirmatively states that customer-provided equipment...

in other words, equipment not necessarily made by the telephone company, may be attached...

to the communication circuit

so long as it is not hazardous or detrimental to public telephone service. Also, the telephone company should provide reasonable standards for foreign attachments."

In this case Carterfone is a very simple little device that permits the inner connection of two-way radio systems and telephone systems. It is really a trivial device compared with the other types of equipment that we are talking about but the principle is the same. The FCC examiner went on to say:

"I am struck with the inherent unfairness of a system which permits the telephone companies to bar the use of equipment which competes with their own. Possibly, the time has come to consider the establishment of a process whereby suppliers of attachments might submit them to the telephone companies for



expeditious approval or disapproval under objective standards."

We feel that this is essential in Canada and we will go into this in more detail later on.

Case 2 is not as significant as Case 1 because it involves the provision of competing communication services as opposed to the use of non-telephone company equipment on the telephone system. This is a case involving Microwave Communications Inc. which had offered to build special microwave circuits between, I believe, Chicago and St. Louis which would offer service equivalent to that provided by either the Telephone Company or Western Union—the equivalent of CN/CP in the U.S.—at a much lower price and with better installation dates and less trouble. In this case the FCC decision stated that Microwave should be allowed to offer this service and, in fact, they have been permitted to do so. In the decision they said:

It could serve to create new opportunities for the manufacture and sale of computer services, hardware, software and related equipment; to develop new or lower cost equipment for private microwave users, and even contribute additional revenues to common carriers connected to Microwave systems."

We feel the same situation could occur in this country where there is a special need for a special communication service that is not at the moment provided by either of the common carriers in Canada and that a third party, or one of the two, should be allowed to offer this service if it proved to be to the advantage of the user or of Canada as a whole.

We are not suggesting by any means that this Committee or the progress of this Bill should be influenced by what is happening in the U.S. but I think the technical questions in this whole problem should be examined and information could profitably be obtained from all sources. We have additional information on both of those FCC decisions which has since become available if any Committee member is interested.

Turning to Section IV on page 16, in the area Voice Communications, one of the arguments in favour of permitting Bell Telephone to do as it wishes is the fact that Canada does have an extremely efficient, well-run telephone system and this is the aspect of communications that every Canadian is most familiar with and I think it is quite safe to say that almost every Canadian is quite

happy with the standards of telephone service he gets. We agree with that. Essentially we agree with it but we also say there are further improvements that could be made and, in fact, should be made.

I mentioned previously the fact that a leased telephone line for either voice or data services costs \$4 per month per mile in Canada. In the U.S. the same circuit costs less than half that and I cannot determine from Bell Telephone or anyone else, for that matter, the reason for such disparity in the tariff; why the same circuit in Canada should cost twice as much as does in the U.S. I have heard that Bell Telephone are contemplating reducing these tariffs and that part of their problem, as in many of these areas, is that they only cover the provinces of Ontario and Quebec and that the Western and Maritime provinces have to agree to any of these tariffs, and so on. But I feel that they could probably do more to reduce the cost of private telephone lines, which I mentioned are double what they are in the U.S. and, as mentioned in the brief, the costs of long distance telephone communications.

It has been stated in several quarters that if all long distance telephone communications tariffs were removed—in other words, if it did not cost anything to call from Toronto to Vancouver and you did away with all the machinery, operators and recording devices that are needed to record the cost of such calls—you would probably come out with exactly the same cost as you have now. In other words, you would not have all this machinery and you could dial practically anywhere in the world, or in North America, at least. I am not sure whether this is true but I think it does indicate that a lot could be done towards reducing the costs of communicating in a country like Canada which has a 4,000 mile-long narrow corridor of communications. This is even more important than it is in the United States. The cost for long distance calls in Canada, particularly in the off-peak hours, is again still substantially higher than in the United States—from two to three times as much. I cannot understand why this should be so.

To Bell's credit I think that they have done a great deal to reduce long distance tariffs in the areas in which they have extensive jurisdiction, Ontario and Quebec, and on calls from Ontario and Quebec to the United States, in particular; but we still feel a great deal more could be done.



There are also such special services as the wide area telephone service, which is a service by which a company, or even an individual, if he needs it, can pay a fixed tariff and get unlimited long-distance calling privileges. We feel that these services should be implemented much more fully than they are. An example of this is what is known as inward watts, where a company who has a large number of customers, or, for example, the government, can use such a service to make it possible for people to call Ottawa from all across the country—perhaps not too desirable a thing for the Members—without having to pay tariffs. You pay a fixed rate to the telephone company, and no calls to you from the designated areas are invoiced. This service became available in the United States in January. The last estimate I got from the Bell Telephone representative was that it will not be available in Canada for two years. I cannot understand why there should be such delays in these services. There was a corresponding delay in getting standard watts service—dialling out unlimited privileges. There always seems to be a standard two-year delay. It is almost a joke in the Canadian communications industry that once something comes out in the United States people start planning on being able to use it two years later in Canada.

We have essentially the same system here. We feel that Bell Canada should be motivated to introduce advances to Canadian customers as quickly as possible; not at a pace that is convenient to them or to Northern Electric, but one which matches the needs of Canadian users.

Another example we mention in the brief is the installation of electronic switching exchanges, which offer tremendous new capabilities in the telephone system, and possibly at reduced costs. We feel that the pace at which these systems are being implemented in Canada is far too slow, and that it could be accelerated considerably. In fact, it would be accelerated considerably if there was any substantial degree of competition, but, of course, there is not; therefore there is no one to set the pace in such advances other than the telephone company itself.

We deal briefly with satellite communications in Section V, page 20. It is not our purpose to enter into a detailed debate on satellite communications except to question the attitude of the telephone company, that they have some sort of divine right to establish a similar monopoly in this area. We feel that there are in Canada other groups that

have developed, at their own and the government's expense, a very substantial capability in the area of satellite communication systems, and that these groups should be the ones to supply, build, guide and design satellite communication systems when and if they are developed in Canada. We feel that giving the common carriers, in particular—Bell Canada, of course, among those—a monopoly in the satellite communications area would be a fatal mistake. You would have the same sort of situation you have now in the conventional communications systems that we have just mentioned—a monopoly, little progress and slow technical innovation.

Finally, in Section VI we have our recommendation. Dr. Gellman has already listed these. Recommendation 1: Delete clause 7 from Bill C-104. This clause, in effect, we feel, would permit Bell to

...expand into the satellite communication field and would remove any restrictions over the type of equipment or facilities it employs in the provision of communication services.

We are not opposed to eliminating restrictions on the type and form of equipment that Bell Canada can use; we believe they should be able to make equipment in whatever area they choose. We do believe that Bell Canada should be confined, at the moment, as far as common carrier communication services goes, to the field they now occupy, that of ground communication facilities. In our judgment, Bell Canada has not shown that it has effective capability of exploiting the existing financial and technical powers it has to provide efficient and functional communication systems of all kinds.

In other words, we say: Let Bell Canada do its job, with the facilities and equipment it has now, better than it is now doing—let it improve its service—and if it does a good job there, then perhaps it can have a role in satellite communications; but do not give it complete power over satellite communications until some of the inequities that now exist have been corrected.

Recommendation 2: Delete clause 8 of Bill C-104.

We do not understand why Bell Canada should be permitted to invest and compete in other industries with other companies when those same companies are not now permitted to compete with Bell Canada in its area. If Bell Canada chooses to compete in the manufacture of computers, colour television sets,

or in whatever area, we think that is fine, because increased competition is always beneficial. However, other companies that make communications equipment should be permitted to do the same thing in Bell's area. I think it is inconceivable that any other situation could be correct. We feel that a defect in implementing this would be that it would allow Bell to gain control over the manufacture of equipment in fields which are not communications-oriented, and that it could conceivably use its resources, developed, or derived, from the fact that it has the communications monopoly, to monopolize other industry to the detriment of this country.

Bell is already one of Canada's largest corporations, and it has reached its present position without fully using its powers in areas of communications systems that it already has. In fact, our recommendation is that, if anything, this Bill should be changed so as to reduce the scope of Bell Canada's activities rather than to increase it.

**Recommendation 3:** We believe that this is a key recommendation in that it would permit other companies to compete on a fair and equitable basis in the supply and manufacture of equipment for use both in the telephone communications system and in other communications systems. In effect, someone would have to develop these standards—the Telephone Company could do it itself—have them approved by the Department of Transport or another government agency, and then make them available to companies of all kinds. I would predict that a large number of independent Canadian companies would soon develop because this communications area has tremendous growth potential which is not being realized in Canada.

**Recommendation 4,** in effect, taken along with recommendation 3, would let other companies compete in the manufacture of equipment. We think that other organizations in specific instances should be allowed to compete with Bell Telephone in the supply of communications circuits. In other words, these two recommendations, implemented together, would make it possible for a greatly increased level of competition both in the communication circuit area and in the communications equipment area.

**Recommendation 5** ties in with the example, mentioned previously, of all-inclusive price tariffs. We believe that a clause should be inserted in this Bill prohibiting Bell from filing inclusive tariffs for communications services. This would permit people who are

not capable of offering packaged services to compete with Bell in these systems.

**Finally, recommendation 6:** We feel that the whole question of communications common carrier services is sufficiently complex to warrant some type of full investigation into it. Everyone recommends a Royal Commission for their problems, but we feel that this one, if any, merits such an investigation, which should include

(a) long-distance telephone rates.

(b) private leased telephone rates.

(c) The technical competence of Bell and its wholly-owned subsidiary to respond to the needs of advanced communications systems in Canada.

(d) The extent to which Bell Canada and Northern Electric rely on United States technology.

(e) The extent to which Bell Canada should be permitted to control the manufacture of its own equipment.

We are not suggesting that Bell Canada be forced to divest itself of Northern Electric or other manufacturing subsidiaries, but an investigation would reveal the beneficial and detrimental aspects of the existing system, and whether or not the monopoly enjoyed by Northern Electric is beneficial to Canada. We feel that in our area at least it is not.

**Finally,** and this is also an important regulation, we feel very strongly that the Department of Transport should be given an open mandate and the funds to increase its technical staff. When I say "technical staff", we are not proposing that the government go after the telephone company, or try to control its operations, but we do believe that an increased technical budget in the Department of Transport would enable it to examine more fully communication carrier practices in Canada; would enable it to go into new tariffs properly; to investigate the existing tariffs more fully; and, in general, to make sure that the Department of Transport can fulfil its responsibilities to the Canadian people.

**The Vice-Chairman:** I would like to ask the Committee at this time if I could have a motion to print the brief as an appendix.

**Mr. Deachman:** I so move.

**Mr. Rock:** I second the motion.

Motion agreed to.



**Mr. Bell (Saint John-Albert):** As one who does not really understand too well the operations of a company such as this, am I right in assuming that if a large Canadian corporation, with or without computers, desiring to set up a communications system throughout their organization for different parts of the country, comes to you, and you, probably in competition with other companies such as yours, are given the job, you then find, as you have exemplified in your brief, that you cannot get for them the best value? Is that right? I am trying to get an assessment of what you are doing.

**Dr. Gellman:** Yes; I think that is a very fair statement. We merely provide our clients with advice and technical help or services to help them implement systems. We do not manufacture computers or any related equipment.

However, as Mr. Holt mentioned, we have in our office two computers that we wished to connect together to test for one of our large clients who was implementing a cross-country system. Therefore, we have to get involved in dealing with the hardware and the deep technical aspects. But our primary concern is to get for our client the best system they can get for the money.

The lack of adequate communications services and facilities and the time delays that are incurred, are very costly to our clients, because if they have already acquired a computer that might rent for as much as \$16,000 or \$20,000 a month and they are delayed three months in implementing that, that is a lot of money even for a large company.

**Mr. Bell (Saint John-Albert):** Would it be fair to ask if you are hired on an annual fee basis to provide this service to companies?

**Dr. Gellman:** We are hired on a per diem basis, that is, we charge our clients for exactly the number of hours of work that we devote to their problem. We have standard rates for each of our consultants. At the moment we have 26 professional consultants in our company, and we tend to specialize in the systems area. We are probably the largest group in Canada specializing in this area. We are paid strictly by the hour for the work we do. They do not necessarily have any long-term contract with us. However, in the particular case that we mentioned, the client asked us to act as systems manager as well until the job was finished, so that this extended over practically a whole year.

**Mr. Bell (Saint John-Albert):** There have been some previous statements to this Committee to the effect that many who have dealings with Bell and Northern would not wish to come forward and state their cases because of fear of reprisals. I take it that you either have no such fear or are completely unconnected with any favours that Bell could bestow on you.

**Dr. Gellman:** Yes, we thought of this, naturally. We are in business and we would not wish to hurt our position but, frankly, we could not think of any possible reprisals that Bell could take against us. Although we are one of the larger systems consultants we are a very small company and we depend on Bell only to provide us with our office telephones. I cannot conceive of their walking in and removing those.

What else can they do to us? If they were to try to discredit us in the eyes of the public we are prepared to take our chances on that.

**Mr. Bell (Saint John-Albert):** There are three points that Bell made in their brief. I wonder if you would care to comment on them. I ask only to try to narrow our problems here. You have probably answered them, and this may be a case of restating some of your thoughts—and I may also not be paraphrasing Bell perfectly—but, for example, in the brief that Bell presented, which is in our Thursday October 19, No. 3 Committee Minutes on page 72, the witnesses for Bell said:

We do not intend to be anything but excellent common carriers. That is what we intended to be; that is what we have said in the past and that is what we intend to do in the future.

And then, they made the one exception that, because they only operate in Ontario and Quebec and because they may be called on for overall national duties, they might need some authority there. I take it you are more suspicious of that statement.

**Dr. Gellman:** No, I am not suspicious of that statement. I have no way of knowing whether Bell is sincere in that statement or insincere. All we have done in our brief is to identify certain instances where we recognize that the Bell service is less than excellent. Now, we recognize that nothing can be perfect, but we believe that an improvement is feasible and possible and desirable.



**Mr. Bell (Saint John-Albert):** Well, do you think there is any disadvantage for Bell in that they really only operate in Ontario and Quebec with some connections in the Maritimes—that is, in performing a full national service?

**Dr. Gellman:** Yes, we state in our brief and, as Mr. Holt said, we do concede that Bell may have some difficulty due to the fact that it is restricted to only two of the ten provinces. However, the actual cases that we have quoted do not appear to us to depend on that question.

**Mr. Bell (Saint John-Albert):** But surely in the cases where CN/CP Telecommunications is competing with Bell, it will become apparent in this ever expanding field, that they cannot provide this national service.

**Dr. Gellman:** But, in the case where CN/CP was competing with Bell, the reason that Bell was unable to compete was not because of the geographical limitations but of technical limitations. They simply did not have the hardware that CN/CP had built and invested in.

**Mr. Bell (Saint John-Albert):** The second point, Mr. Chairman, has to do with the business of being allowed to form large companies to compete internationally. We were informed of some of the success Northern has been able to get on the international markets. This is what the witness says in the same Proceedings; it is on page 75. Mr. Vincent says:

Today there is far more talk of competition on the world market than ever before, and Canada has made quite a good start. Northern has been able to do it. Just in recent years. To compete on the world market a company has to be fairly big and fairly efficient.

Now, just to give you a chance to comment: it is not so much the bigness but the efficiency that you are questioning.

**Dr. Gellman:** Yes.

**The Vice-Chairman:** Perhaps Mr. Holt would like to add his comments.

**Mr. Holt:** We feel that bigness is not the only criterion. Of course we are competing internationally. First of all, if our recommendations for letting other companies compete in Canada in the manufacture of communications equipment were implemented we feel that these companies would develop an

expert capability. Canadian companies have shown that where given an opportunity they have technical competence second to no one, including the United States. We feel that in this communications area it is so specialized and so dynamic that a small or even a large company producing this equipment would be able to sell it competitively on the international markets; that, in fact, if these companies were competing with Northern Electric they would all benefit in the long run. The improved level of technology would benefit the companies that are entering into the market as well as Northern by putting more pressure on it to develop its products.

It is my impression that a great percentage of the business Northern Electric has won in international export markets, and I do not mean to debase their business to any extent, has been partly through the assistance of the Canadian government in offering interest free long term loans to several countries. I spoke to someone from IT&T in the Bahamas last week and he mentioned that in every case where IT&T is competing with Northern Electric where interest free loans or other government assistance was not a problem they could beat them. He felt that Northern Electric was a good company and made solid, reliable equipment. But he felt that especially in the advanced areas they did not have a technology to compete internationally and that he did not see them developing this technology without some kind of competitive influence.

**Mr. Bell (Saint John-Albert):** That is interesting. My third question, Mr. Chairman, is about the recommendations in section 8 in which the authority is requested for further investment powers. Bell states on page 78 that the main reason is that in this type of business, finance business, nowadays you have to be more diversified and I will not quote because it is a long paragraph, they have to be able to present a better financial picture and to be allowed to invest in stocks and bonds, debentures, all kinds of securities of other companies; otherwise they are not diversifying the way other large corporations are and they might suffer. Now, what do you think of this? Do you feel they are sincere when they state that that is the reason they want section 8?

**Dr. Gellman:** We did not address ourselves to that particular aspect; we are merely concerned that if Bell Canada is given freedom to cover more ground it will do more harm than good for Canada. Their contention may

or may not be justified and I hesitate to comment on it because I do not feel equipped to do so. Our concern has been expressed in our brief and I would prefer to keep it at that unless Mr. Holt would like to add anything.

**Mr. Bell (Saint John-Albert):** The only thing is, where you are deleting section 8 this would take the power away from Bell, but it might be that section 8 could be limited so that they would not acquire all their unacceptable companies and would be satisfied.

**Dr. Gellman:** Yes, that is right.

**Mr. Bell (Saint John-Albert):** Well that is fine, thank you, I might have other questions in connection with the brief. I might say in my opinion...

**The Vice-Chairman:** Mr. Émard. Would you wait just a minute Mr. Émard until we can get the translation.

[Translation]

**Mr. Émard:** I would have some supplementary questions to ask in relation to the DCF Company. I shall therefore address myself to the Company's representative. In the introduction, the brochure describes you as a Canadian management consultant firm. I would first of all like to know how large your operations are, either your turn-over or gross revenue, so as to give me an idea of the size of your company.

[English]

**Dr. Gellman:** Yes sir, at the present time our company has 26 professional consultants. This means people who have University degrees in various branches of engineering, mathematics, accounting, business administration, economics, physics and various other areas. Our core knowledge area, the areas that we work on rotate, revolve, around computers and mathematics. Our group has been a group of consultants since 1955. I could, of course, give you an answer to your question about the turnover of our company—by that I assume you mean annual dollar volume of sales. I hoped Mr. Chairman, I could duck that question. We are a business organization and I believe it would benefit you less, sir, to know that information than it would benefit our competitors. I would be very happy to answer any questions at all about our company. We have striven very hard to raise our quality continuously so that we give our clients good service.

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I have brought along with me Mr. Chairman, some copies of a booklet that contains a brief description of our company and if you wish I will be happy to make available a copy to every member here.

[Translation]

**Mr. Émard:** Could you tell me what is the total number of men actually employed by your company?

[English]

**Dr. Gellman:** Twenty-six consultants, plus five secretaries and accountants—a total of 31.

[Translation]

**Mr. Émard:** All your consultants are university graduates, if I am not mistaken?

[English]

**Dr. Gellman:** No; nearly all. Of the 26 I think 24 are university graduates, one is a professional engineer but not a university graduate. The other is not a university graduate but is a junior consultant who works on assisting the senior consultants in writing programs of instructions for computers and you might call him a junior consultant.

[Translation]

**Mr. Émard:** When was your company established?

[English]

**Dr. Gellman:** In 1955.

[Translation]

**Mr. Émard:** You mentioned earlier that your clients pay you on an hourly-rate basis. Is this so?

[English]

**Dr. Gellman:** Yes.

[Translation]

**Mr. Émard:** That is correct. Have you another payment system or is this the only one?

[English]

**Dr. Gellman:** That is the only basis. Sometimes we might give a client an estimate of the total cost for a study, but even then our total cost is based on the number of hours worked by the rate per hour. On occasion we purchase computer time on behalf of our clients to run some of their studies—to do some of the computations involved in the

mathematical analysis. In those instances when we buy computer time for our clients we charge the client exactly what we have paid. In other words, our income, our gross bill, consists of  $x$  hours times  $y$  dollars per hour plus all other pocket expenses approved by the client at our cost. No mark up.

[Translation]

**Mr. Émard:** The value of the equipment you recommend in no way influences the price of your services. Is this so?

[English]

**Dr. Gellman:** That is correct, sir.

[Translation]

**Mr. Émard:** I have not brought my notes with me, but if my memory does not fail me, in the Survey of Industrials of 1966, your company appeared as a subsidiary of the DeHavilland Aircraft Company, and in 1967 it no longer appeared. Could you tell me what happened?

[English]

**Dr. Gellman:** Yes sir, perhaps I could go back a little bit to explain this. In 1955 I formed my own company of consultants called H. S. Gellman and Company Limited. In 1964 the Gellman Company merged with DCF Systems Limited which was at that time a wholly owned subsidiary of the DeHavilland Aircraft of Canada. About a year and a half ago I reacquired, together with my partners, all the interest in DCF and we became independent once more. Today, as stated in our brief, the company is owned by five partners, myself, Mr. Holt and three others.

[Translation]

**Mr. Émard:** I have no further questions; thank you.

[English]

**The Vice-Chairman:** Mr. Reid.

**Mr. Reid:** Do you have any technicians with you at the moment to repair this system?

**Dr. Gellman:** No. We do not at the moment employ technicians to maintain equipment or repair it. It does not mean we might not do so. If it were in the interests of our clients to add such a service in order to provide a better implementation facility for them we would do so, but at the moment we do not.

**The Vice-Chairman:** Mr. Reid.

**Mr. Reid:** Yes. First of all I would like to congratulate Dr. Gellman and Mr. Holt on their very excellent brief.

**Dr. Gellman:** Thank you.

**Mr. Reid:** The first question I would like to ask is about the question of satellite communications. It deals with the prospect that if the Government does go into satellite communications there will be the necessity of getting the common carriers to agree to use the circuits and what not, because as you pointed out they have a tremendous investment in terrestrial facilities. If we accept your advice in removing clause 7, this would preclude them from participating in any meaningful way in the operation of such a satellite communications system.

**Mr. Holt:** I think your point is a good one, perhaps we did not make it sufficiently clear. We feel that, of course, the communication companies would be a big user of any satellite communication facilities and of course this is natural and we do not object if they participate in it. We do not, in effect, think it would be desirable to have them control it. Some independent body should control the satellite communication system and allocate channels and set tariffs.

We feel that if the communications common carriers controlled it, they would naturally develop tariffs and implement a system in accordance with their best economic interests. This may not, however, coincide with the best economic interests of the country.

**Mr. Reid:** How do you mean, "controlled"? It is possible, for example, for the government to control it without owning any shares in a satellite corporation that might be set up.

**Mr. Holt:** Theoretically, it is possible for the government to control it, even though the communication companies owned it in its entirety. In actual fact, I do not believe that the Department of Transport has the resources or the number of people that would be needed to effectively control it at the moment. This is why we think that someone else...

**Mr. Reid:** It does not have the technical capability?

**Mr. Holt:** It has the technical capability but it does not have enough people or money properly to regulate such a system.



**Mr. Reid:** In other words, the Department of Transport is not really able to carry out some of its functions in this field because of lack of staff and...

**Mr. Holt:** The Department of Transport, of course, was practically the original body in Canada to develop some type of technology in communication satellites. It managed and built the first Canadian ground station and did an excellent job. It probably has along with RCA Victor and, perhaps the Defence Research Board, the most competent group of people with knowledge in satellite communications. It is a small group and their project was built as an experiment or on an experimental basis, although it is operational now, of course. We feel that rather than rely on a huge regulatory agency for satellite communications, why not set it up so that it is run by an independent group in the first place?

• (11:20 a.m.)

**Mr. Reid:** You would have no objection then, say, to the federal government making an offer to the common carriers to join in the financing in and the share of control over such a thing?

**Mr. Holt:** No.

**Mr. Reid:** Say, the federal government might take 51 per cent of the capital stock or even a lesser amount, if it was necessary, and then allow the other companies to participate.

**Dr. Gellman:** Yes.

**Mr. Reid:** That clears up that question.

**Mr. Saltsman:** Mr. Chairman, on a point of order and for the record, I wonder if you would translate that nod into a "yes"? I think it is a very important question.

**Dr. Gellman:** Yes.

**The Vice-Chairman:** I think the answer was, "yes".

**Dr. Gellman:** I am sorry if it was inaudible.

**Mr. Reid:** To continue that theme, does not the Board of Transport Commissioners have a certain amount of control over the Bell Telephone Company's operations?

**Mr. Holt:** Yes.

**Mr. Reid:** Just over the communications system, though, not over, say, its relationship with Northern.

**Mr. Holt:** We are not here with legal counsel and we do not pretend to understand all the legal ramifications of the current regulations.

**Mr. Reid:** Nor do we.

**Mr. Holt:** As I understand it, there is very little control over the interrelationship between the Bell Telephone system and Northern Electric I think it was testified in this Committee, to the effect, that Northern Electric sells equipment to Bell Telephone at a different price from that sold to outside users.

This would indicate to me that there is no direct Department of Transport control over intercompany billing prices or other aspects of the relationship.

**Mr. Reid:** The Board of Transport Commissioners does have control over certain rates that are set by Bell. These are almost exclusively for the telephone services, if my memory serves me correctly. Do you know if they deal with the telecommunications section of Bell's operation?

**Mr. Holt:** Yes, I believe that they do.

**Mr. Reid:** They are currently limited by the Board of Transport Commissioners to a profit of about 6.5 per cent, I believe, on capital invested. Would you not say that one of the attempts of clause 8, which allows the power to invest indiscriminately, is an attempt by Bell to break out of the strait-jacket of earning limitations which the Board has put them into?

**Mr. Holt:** I really cannot answer that question. I honestly do not know. I think it is safe to say that our principal objection to that clause is that there is no machinery at the present to permit other companies to compete in Bell's areas. Therefore, why should Bell be permitted to compete in other companies' areas?

I think that it has to be on an equitable basis, that a liberalization of Bell's practices with respect to the use of non-Bell equipment would have to accompany any change or any permission for them to invest in other industries.

**Mr. Reid:** Yes. You see the utilization of this clause as a take over instrument whereas Bell tends to present it as an attempt to diversify investment.

**Dr. Gellman:** As we mentioned in our answer to an earlier question, we have not

addressed ourselves to all the implications of that clause. It may very well be that there are three or four separate questions that need to be answered with regard to that clause.

We have simply made one point and one only, that the clause as it now stands could be harmful. As Mr. Bell suggests, perhaps what is needed is not a deletion of the clause but an amendment to it.

**Mr. Reid:** Yes, that is my feeling as well. In your sixth recommendation, you suggest the establishment of an independent commission. Would this proposed commission take over some of the functions now carried out by the Board of Transport Commissioners as well as some of those carried out by the Department of Transport?

**Mr. Holt:** If I can clarify that, we intended this commission to be an investigative one solely for the purpose of determining what should be done in detail with respect to all the aspects of communications as a whole. I see no reason why the machinery for administering the regulations that were developed by that commission would not still reside in the Department of Transport.

**Mr. Reid:** You would agree, then, that the present Canadian Transport Commission which absorbed the Board of Transport Commissioners would not be a suitable vehicle for this type of function?

**Mr. Holt:** It could well be. We have not really given much thought to that aspect of it, to be quite honest.

**Mr. Reid:** Your recommendation indicates, though, that you are not that satisfied with the present regulatory functions of either the DOT or the Board of Transport Commissioners. Is that correct?

**Mr. Holt:** Yes.

**Mr. Reid:** Some of the cases which you have outlined here make rather shocking reading. They indicate an attempt by Bell to do one of two things—to protect themselves against competition which they are not technically equipped to meet, or the possibility of attempting to hold back developments in Canadian communications until it is convenient for them to provide these services.

**Mr. Holt:** Yes, we believe this is, in fact, the case. This whole question of using non-Bell equipment on their circuit is a rather complicated one, technically.

We feel that the telephone companies here, as well as in the United States, have used the technical aspect of it to cloud the issue. They maintain that if you connect a piece of equipment that is foreign to the system, it will somehow damage that system or will not work properly.

In actual fact, the telephone system, as I mentioned in the brief, is not a great deal more complex than the electrical distribution system. All that is required is a set of simple standards.

In North America there is a set of standards produced by the Electronic Industries Association of Canada which is not strictly adhered to by all equipment manufacturers. However, it does provide some sort of a *de facto* standard and people, generally, do make their equipment to those standards.

In the U.S. several years ago, independent companies won the right from the FCC to require AT&T to permit clients—who were using not a switched or dial-up circuit, as you have in your house, but a private-leased circuit—to attached foreign equipment, non-Bell equipment, to such circuits.

In Canada, I am not sure what the current regulation is but, in practice, this is not possible. There are people with non-Bell equipment attached to their circuits. I think if you went back and investigated every single case you would find that each was accompanied by a great deal of fighting and difficulty with Bell in order to get the permission. As a minimum step, we feel that people should be able to use non-Western Electric or a non-Bell system...

**Mr. Reid:** At the present, this is almost a privilege, not a right.

**Mr. Holt:** Exactly.

**Mr. Reid:** I have a supplementary question on the information you have just given me. Would your recommendation limit the Bell to the position of providing common services, force them into competition with the software and hardware and remove them from the position of being able to dictate package arrangements as they now do?

**Mr. Holt:** Yes.

**Mr. Reid:** This would have certain limiting effects on the development of Bell as a corporate structure, would it not?

**Mr. Holt:** I think initially it might but we feel that in the long run it would have the



opposite effect. First of all, it would introduce more competition; second, it would make it easier for people to implement advanced communication systems, and simple ones, for that matter. In fact, the actual degree of utilization of these facilities would grow and everyone would benefit, including Bell Canada.

**Mr. Reid:** Where is the profit, then, on the bidding of these integrated systems and breaking them down into separate parts? Is it in providing the transmission of data services? Is it in providing the hardware and software, or in a complete package?

**Mr. Holt:** Providing a complete package, getting the third part, usually—the terminal part of the business that they would not normally get.

**Mr. Reid:** And Bell is the only company in a position to provide this service?

**Mr. Holt:** Yes.

**Mr. Reid:** Therefore, it gives them a great increase in competitiveness as against somebody who is only supplying an aspect?

**Mr. Holt:** Yes, well, it really does not increase their position. It just decreases the other competitors.

**Mr. Reid:** Yes. And you are recommending—when these packages are put out for tender—that Bell or any other company should break down the components which then should be open to bidding by anybody wishing to compete on that basis?

**Mr. Holt:** Exactly. Yes.

**Mr. Reid:** But is this not a legitimate competitive edge that a company the size of say, Bell or CN-CP Telecommunications, could legitimately expect to have as a result of this development?

**Mr. Holt:** I do not believe so. I think the fact that the communications common carrier part of that business is regulated, and they are a common carrier, and no one else is allowed to compete in that area makes it necessary for them to split the prices up. If everyone could compete in each of those three areas, with no restrictions whatsoever, then we would have no objection to it.

**Mr. Reid:** Yes, I think that is correct. Mr. Chairman, I think I will pass now but I would like to be recognized on the second round of questioning.

• (11:30 a.m.)

**Mr. Rock:** Mr. Gellman, you are a company of engineers incorporated as consulting engineers. What is the make-up of your Company financially?

**Dr. Gellman:** I am not sure I understand the question, sir.

**Mr. Rock:** Well, an incorporated body usually mentions the amount of finance involved within their company...

**Dr. Gellman:** Oh.

**Mr. Rock:** ...the amount they have in manufacturing. Without knowing consulting engineers, what is your financial involvement?

**Dr. Gellman:** If I might just try to answer it, perhaps I will not...

**Mr. Rock:** Maybe my second question would be more suitable.

**Dr. Gellman:** No, let me try, please.

All our Company provides is people's time and talent. As such, the only capital investment needed by a company such as ours is that required to rent offices, buy typewriters and office furniture, and have enough credibility at the bank to be able to pay our payroll while we are waiting for our clients to pay their bills to us. In effect, a company such as ours depends more on talent than on capital. Therefore, I believe, the question is not too pertinent.

As I mentioned earlier, five of us own the Company and we have invested—I honestly do not know exactly how much we have invested over the years in it, but we are basically dependent upon client fee income to pay our salaries. We have a profit-sharing plan which enables all of our people, including secretaries, to be partners and the capital investment is really not very important to us.

**Mr. Rock:** Mr. Gellman, what financial responsibility have you in guaranteeing the work and services when you are under contract?

**Dr. Gellman:** Our financial responsibility has several facets. In the first place, if it should happen, and it has not happened, that a client is unhappy with the results of a study done by us he would not suffer financially. We would absorb the financial responsibility.

When we act as systems manager on behalf of a client, and he is installing a very



complicated system that might be worth several million dollars, again, we undertake responsibility but the losses that could be incurred because of any delays on the part of his suppliers are not our responsibility directly, as a rule. We usually are hired as advisers to provide a service and are not asked to undertake a total responsibility.

**Mr. Rock:** Well, supposing you were hired to plan and develop a certain communications system and it failed to function in the manner it was supposed to—and in a manner which you guaranteed it to do, and they took you to court—what responsibility then do you have?

**Dr. Gellman:** If we had undertaken to guarantee a complete implementation serviceability, we would have complete responsibility.

**Mr. Rock:** Yes, but financially speaking now, where do you fit into that? What have you to guarantee this? Is it a bond or is it a...

**Dr. Gellman:** We have never had a contract of that type with any client in all the years we have been in business because we are not consulting engineers as much as we are management consultants. Our clients do not hire us as a rule as systems manager and even in the case where we are acting as systems manager, the client has not asked us to bear financial responsibility but merely to hold his hand from a technical viewpoint because, after all, we do not provide the components of a system. All we have is technical know-how.

**Mr. Rock:** Yes, but in your technical know-how you are recommending certain systems.

**Dr. Gellman:** That is right.

**Mr. Rock:** Therefore you should be taking the responsibility indirectly for that system because you are recommending to a client who does not know anything about these systems.

**Dr. Gellman:** Yes.

**Mr. Rock:** They are purchasing this on your recommendation.

**Dr. Gellman:** Yes.

**Mr. Rock:** I am saying this for a reason. I was a member of a city council and once we hired some consulting engineers for an incinerator. These people recommended to the municipality an incinerator which was not

going to pollute the air, was not going to smoke and then, of course, it did smoke and it did pollute and we had to close the place in five years' time. The firm did not exist after that and the responsibility lay on no one, and that is why I would like to know where you fit in with this responsibility.

**Dr. Gellman:** We have insurance coverage for such an eventuality. We have an insurance policy similar to a chartered accountant firm.

**Mr. Rock:** So, therefore, you do not even trust yourself. If you did you would not be incorporated; you would be partners only.

**The Vice-Chairman:** I think this is going pretty far, Mr. Rock.

**Mr. Rock:** Yes, I know but, Mr. Chairman, this is an important thing.

**Mr. Émard:** That was not a consultant you hired.

**Mr. Rock:** No, I know that, but with the experience I have had in the past I believe more in consulting engineers, Mr. Chairman, when they are partners and not incorporated, for the protection of their own...

**The Vice-Chairman:** I would ask you to keep to the brief as much as you can, Mr. Rock.

**Mr. Cantelon:** Mr. Chairman, I think it is perfectly clear to all of us that these gentlemen are selling a service like any professional persons, and as professional people if this service is not satisfactory it destroys their reputation. Consequently, without a reputation they cannot do business so I do not follow Mr. Rock's line of questioning at all.

**Mr. Rock:** I am not casting any reflection; I am just speaking from the experience I have had before and I just want to know the reasons why you are incorporated and not under partnership.

**Dr. Gellman:** The reason why we are incorporated, rather than under partnership, is that when we merged with DCF Systems, it was an incorporated company trying to do other kinds of things. When we re-acquired the shares, frankly it was more trouble than it was worth to change the name and the constitution. I would like to suggest if you wish, if you have a copy of our brochure, that we would be happy to have you speak

to any of our clients and let them tell you about us.

**Mr. Rock:** No; I do not think that will be necessary, actually.

On page 21 of your brief, you say that at present Bell Canada does not have an impressive competence in the field of satellite communications, nor does its subsidiary, Northern Electric. How do you arrive at this evaluation of Bell and Northern Electric's competence.

**Dr. Gellman:** We had the privilege of acting as technical advisers to the Department of Transport when the Department of Transport built the ground station at Mill Village, Nova Scotia. As such we monitored the various activities and we came to see the capability of the various people involved and that is the basis for our statement.

**Mr. Rock:** Well, then, this ability to evaluate a company's technical competence is important to you. I would say it is also important to you because of the product that you are selling—your services as consultants.

**Dr. Gellman:** That is right.

**Mr. Rock:** By the same token, you are rating highly organizations in your brief such as RCA, NRC, COTC, DOT and DRB, Defence Research Board. Now, the DOT awarded in November, 1966, a contract to Northern Electric for a study of satellite communications. Was DOT, at that time, misinformed?

**Dr. Gellman:** No.

**Mr. Holt:** Did not Northern Electric subcontract a substantial part of that contract to Hughes Aircraft in the United States?

**Mr. Rock:** No. I think this was already prearranged, or something. I will come to that Mr. Holt. The Minister of Transport's Parliamentary Secretary, Mr. Byrne in an answer to a question in the House—No. 2757—Mr. Coates March 14, 1967—referred to previous work done by Northern and particularly that contract awarded by Defence Research Telecommunications Establishment for an experimental satellite ground station. Do you believe, then, that the Defence Research Board was also misinformed?

**Dr. Gellman:** Our belief is that if you were to rank the organizations by quantity and quality of experience, that Northern Electric would be at the bottom of the list relative to these others. We are not suggesting that these

departments were misinformed. We have no basis for knowing why these contracts were awarded. It is conceivable that it is in the interests of the country to give Northern Electric an opportunity to acquire more experience and we do not question this. All we are saying is that up to the present time, the relative experience of Northern Electric does not compare favourably with the others.

**Mr. Rock:** Well, I could read parts of the answer that was given to this question.

**Mr. Reid:** Give us the date of it.

**Mr. Rock:** The date of the question?

**Mr. Reid:** Yes, and the answer?

**Mr. Rock:** The question was asked on April 10, 1967, on page 1718 of *Votes and Proceedings*, the number of the question was 2,757—Mr. Coates—and the answer was given on November 1, 1966 but the answer you would find in Room No. 130. I do not think it was read out in the House at the time. I think it was just one of those that are tabled.

On page 21, you say that the true benefits of satellite communications would not be passed on to the users until the existing facilities had been fully amortized, if even then. I do not quite understand, if the Bell's rate of return is limited to 6.6 per cent of the invested capital, how you can avoid passing satellite benefits to telephone users. They are limited to a return on their total investment of 6.6 per cent.

**Dr. Gellman:** As Mr. Reid mentioned earlier in one of his questions, to which we replied yes, it seems to us reasonable that without some competitive forces at work an organization would be interested in continuing to use its existing facilities as long as possible rather than bringing in new ones.

**Mr. Rock:** You are saying, then, that the Bell Telephone is not keeping up to date.

**Dr. Gellman:** That is right.

**Mr. Rock:** It is hard to agree with you in this respect.

**Dr. Gellman:** Are you able, sir, to get...

**Mr. Rock:** You go around in many parts of the world and I think we are more up to date than most of the countries in the world, so how much better can we get?

**Dr. Gellman:** Would you, sir, be able to arrange for me to get a telephone in my office in Toronto that has push buttons on it?

**Mr. Rock:** Now, you see, here we have other briefs complaining that people are forced by Bell to accept new services and new ideas and now you are here speaking to the contrary.

**Dr. Gellman:** Our brief merely maintains that the more progress made in the communications industry, the better it will be for Canada.

**Mr. Rock:** Yes, but you as technicians know well that it is impossible just to turn around tomorrow and say: All right, we are going to give you that without changing some of the other services within the communications system. Is that not right?

**Dr. Gellman:** There has to be an inevitable delay. We are suggesting the delay is longer than necessary.

**Mr. Rock:** Yes, but The Bell Telephone Company, do you not agree, is a big company? It has services throughout Ontario and Quebec and they cannot, just overnight, change the whole system and introduce push buttons. They are starting it in different areas but I do not think you would expect them to make a big change overnight throughout Quebec and Ontario to the push button system. I mean, I do not think it is fair to complain that if you demand that immediately, you will not get it. This is normal. If I demand the push button system for my office right here I will not get it either; I do not think this is a fair example.

**Dr. Gellman:** No. It is not a very important example, I agree.

**Mr. Rock:** Nor a fair example.

**Dr. Gellman:** But the examples we have cited in our brief deal with cases that I think could justifiably have been handled better with competitive forces at work.

**Mr. Rock:** On page four you mention CN/CP and their broadband switching network. I get the impression on reading your brief that they are quite progressive in communications.

**Mr. Holt:** In this particular area, yes.

**Mr. Rock:** Yes. Well, how big are they in this field?

**Mr. Holt:** This is really not a field. This is just one aspect of data communications, the provision of switched high-speed service as opposed to private high-speed service. We feel that in this area they have made the investment and have established definite superiority over the Telephone Company in this system and that they should not have obstacles placed in the way of their realizing the benefits of this investment. In other areas, CN/CP has deficiencies that rank equal to that of Bell Canada. I think in the opening paragraph we mentioned that we have problems with all the common carriers, not just Bell Canada, but because this Bill deals with Bell Canada we confined our comments to Bell.

**Mr. Rock:** What type of systems does CN/CP have? Is it Telex, is it teletype?

**Mr. Holt:** What type of assistance?

**Mr. Rock:** No, no. What type of communications systems.

**Dr. Gellman:** Oh, systems facilities.

**Mr. Holt:** They are permitted to offer leased voice grade circuits, switched and private teletype or hard copy transmission facilities and switched data transmission facilities.

**Mr. Rock:** Did you name these circuits to anyone?

**Mr. Holt:** To anyone?

**Mr. Rock:** To anyone who wants a circuit to be leased. They do this also as well as Bell?

**Mr. Holt:** Yes.

**Mr. Rock:** Do they have the microwave system also?

**Mr. Holt:** Yes, they do.

**Mr. Rock:** Do they also supply TV network services?

**Mr. Holt:** I do not believe they have a contract. They may have. They have the capability in their microwave system but I think Bell has all the TV transmission. I am not sure of that point.

**Mr. Rock:** Then what you are actually saying is that the CN/CP is a dynamic aggressive and strong competitor to Bell Telephone.



**Mr. Holt:** In one area they have managed to offer service superior to Bell Telephone and we believe that this restriction should not be placed in the way of users who wish to use this service.

**Mr. Rock:** On page five, in Case No. 1, you mentioned that dataline offering was designed as a temporary stop-gap measure until Bell Canada could prepare its own broadband switching service. This service is not expected until 1968. Would you say that Bell is trying to meet the competition of CN/CP?

**Mr. Holt:** Yes. It appears that they are.

**Mr. Rock:** Is there something wrong with trying to keep up to date? Before you were saying that they are not up to date and now you are criticizing them for trying to catch up with CN/CP.

**Mr. Holt:** Let me ask whether you think Bell Telephone would have offered this service in 1968 if CN/CP had not offered it in 1966?

**Mr. Rock:** This is normal. This is competition. When a company finds something new in another part of the world, surely they have their technicians look into it, work on it and, possibly, go into it and maybe try to develop something even better. This is normal. I think you people may be involved in things like this sometimes.

**Mr. Holt:** Yes, we would hope so. Our point is that if competition were more prevalent in all aspects of communications services and equipment, these developments would proceed at a much more rapid pace than they do now.

**Mr. Rock:** Thank you.

**Mr. Deachman:** Dr. Gellman, this is a brief that bristles with technology and I do not feel very competent to come to grips with many of the things you say. I think it points up the necessity, Mr. Chairman, for someone with expert knowledge to brief us before we come to the end of the hearings with regard to Bell Telephone. I have a couple of general questions I want to pose to you because of your knowledge in the field, Dr. Gellman and the first one is this: In your opinion, what is the present technical capability of the federal Government to oversee the development of communications systems in Canada and to regulate them in the interests of the public?

When you answer that question I want you to give us your answer in terms of what you already know, for example, of FCC regulatory capacity and make some kind of a comparison.

**Dr. Gellman:** I wonder, Mr. Chairman, if you could ask Mr. Holt to answer that question.

**The Vice-Chairman:** Mr. Holt?

**Mr. Holt:** I think your question is a good one. I am not sure that we can give you a satisfactory answer.

• (11:50 a.m.)

We are familiar with most of the major government agencies who have responsibility in the fields in question. From our dealings with them it is my opinion that they have competent staffs and that they have done everything within their powers to perform the regulatory function properly. However, in comparison with, let us say, the United States, where there are numerous complaints that the FCC is totally inadequate in terms of the number of technical people on its staff and the resources and the time available, and so on, to police the American communications industry—if you compare the size of our regulatory agencies in Canada, even discounting the disparity in size of countries and complexity of the systems—the Federal government is not spending enough money in this area. The regulatory function has not been exercised to the extent that it could, or should, have been. This is not because of any deficiency in the technical capability in the departments of the government concerned, but primarily the lack of modern legislation.

In this respect I think we agree with Bell Telephone's request for the updating of regulatory laws governing their operations.

Another problem is that the number of professional technical people in the Canadian Government agencies is definitely not sufficient to go into the complexities and the technical and financial aspects of the various new developments in communications.

In the United States the FCC is now conducting a massive probe of the whole computer communications spectrum, on the basis that you have to look at these things as a whole; that you cannot look just at satellite communications, or microwave networks, or television transmission facilities, and so on; that you have to look at whether computer

utilities should be regulated and at an integrated communication system. The Canadian Government agencies definitely do not have the funding to conduct a probe on that scale, or to administer such regulations.

**Mr. Deachman:** Is it your opinion that had a more highly developed regulatory staff in the regulatory body existed in Canada some of the questions which you have raised in the examples you have given us would have been resolved by the regulatory body, and that you would not be presenting them as examples this morning?

**Mr. Holt:** I believe that some of them would have been, yes; probably not all of them, but some of them.

**Mr. Deachman:** Do you believe that the United States is far ahead of us, or more liberal in its regulatory procedures, in giving aid and impetus to the electronics industry?

**Mr. Holt:** Yes, I believe it is. One example, which I have mentioned already, is that it is permissible to use non-AT&T equipment on a leased telephone circuit.

**Mr. Deachman:** Within the AT&T's territory?

**Mr. Holt:** Yes; which is virtually everywhere in the United States.

Secondly, if the Carterfone and microwave cases are carried through, as they appear to have been, it will then be possible to connect, or to use, non-AT&T equipment in all circumstances, so long as it conforms to technical specifications.

If both of those regulations are enacted I believe that it will then be considerably more liberal than it is here.

**Mr. Deachman:** Let me put the same question in rather reverse fashion. Can you name the factors which, in your opinion, limit or inhibit the growth of the electronics industry in Canada?

**Mr. Holt:** Do you mean in the communications business, or in general?

**Mr. Deachman:** I mean in general.

**Mr. Holt:** In the communications business, in particular, the fact that the majority of the services and equipment in this country are supplied by one company and its manufacturing subsidiary, or by another company which is a subsidiary of the railroads, with very little opportunity available to any

Canadian company to supply equipment other than in a few very specific areas, is a definite limitation on the growth of electronics equipment manufacturing concerns in this country.

The electronics industry in general very literally faces the same problem as does any secondary manufacturing industry, that of a small market compared to the United States, with very large and very efficient companies in the United States in competition with it.

In other areas, Canadian companies have managed to develop products that are saleable in international markets, even given the limitations of a small domestic market. In the communications electronics business, in particular, I think that the same development would occur if there was an opportunity to develop the domestic market. As it is, there is a zero domestic communications equipment market other than in a very few specific areas.

**Mr. Deachman:** You said that you found it cumbersome and restrictive—although perhaps those are not your exact words—to deal with Bell Telephone in certain matters. Have you found it equally restrictive and cumbersome to deal with the railways in some communications matters?

**Mr. Holt:** Of the instances in which we have dealt with both, I would say that in half of them the railway companies were definitely easier to deal with; and in the other half they were about the same as the Bell. It depended almost entirely on what area we were investigating.

In the area in which the railways are strongest, conventional teletype and leased voice circuits, their rates and services are very similar to those of the Bell Telephone and they are about the same to deal with. In some of the newer areas they were much more anxious to develop a market and were therefore much easier to deal with.

**Mr. Deachman:** In other words, in areas where the Bell system and the railways system are competitive you found it easier to deal with each of them, and in areas where they have a degree of monopoly you found it more difficult?

**Mr. Holt:** I would not say "a degree of monopoly". I was talking about a new or advanced area. There is little to choose between them in the well-established, conventional communications area. In the newer areas, the railway, on about half of the occasions, has

been much easier to deal with. I am thinking in particular of this switched high speed service.

**Mr. Deachman:** Those are all my questions.

**The Vice-Chairman:** Mr. Reid, on the second round.

**Mr. Reid:** I want to ask one or two questions on the first example you gave of discriminatory pricing. On page 5, in the first paragraph, you point out the difference between the cost of the private, leased circuit, and that which had been given by CN/CP telecommunications. In effect, then, Bell was subsidizing its entry into this new field through the profits it was making on other services, particularly pay telephones?

**Mr. Holt:** Yes.

**Mr. Reid:** They were doing this because they lacked the technical competency, or—perhaps that is too strong—they lacked the facilities at the moment in Canada to do this?

**Mr. Holt:** Yes.

**Mr. Reid:** In the second case, you mention that they had gone ahead and did not even have the means to figure out what the charges were.

**Mr. Holt:** Yes.

**Mr. Reid:** The final case of discriminatory pricing was where you found that the Bell engineers were unable to correct mistakes that they had made in the two computers which you had purchased.

**Mr. Holt:** Yes; we had very great difficulty in trying to find someone to tell us. What happens is that the data set is wired to a device that takes information from the computer and puts it on a communications line, and *vice versa*. The data set has to be set up so that it is prepared either to receive data or to send it out. In this case, both data sets were wired to send out, so that they could not talk to each other, therefore one of them had to be rewired to be able to receive. We could not find anyone...

**Mr. Reid:** Were they ordered this way?

**Mr. Holt:** No; they were ordered in the proper way.

**Mr. Reid:** And they came with this error?

**Mr. Holt:** That is right. Eventually, because we had an urgent programming deadline to

meet, and even though we are not hardware engineers, we undertook to rewire it ourselves and were successful in doing so.

**Mr. Reid:** Do you know why the equipment took this circuitous route?

**Mr. Holt:** I suppose it was to maintain the image that it was manufactured by, or came from, a Bell Canada facility, Northern Electric.

• (12:00 noon)

**Mr. Reid:** In your view, do all these five cases, with particular emphasis on the three we have just spoken about, indicate a determined effort to block competition?

**Mr. Holt:** We feel this is so, in this area.

**Mr. Reid:** With that in mind, would you say that Bell could be prosecuted under current legislation on restraint of trade, or that it would be a matter to be dealt with by the new consumer corporate affairs department of the federal government?

**Mr. Holt:** Dr. Gellman, perhaps you would like to answer that.

**Dr. Gellman:** I do not think we are in a position to answer that question. We are technical consultants, not legal or legislative consultants. If I may, Mr. Chairman, I would prefer to pass.

**Mr. Reid:** Yes; and I sympathize with you; but the point I wanted to make is that it is this type of behavior that should be looked into by this new department. I wanted to know if you thought there was sufficient evidence to present such a case before the courts.

**Dr. Gellman:** Well, as far as evidence is concerned, the cases we quote here are not fabricated. We can certainly prove that they are true. We have no opinion on the prosecution aspect.

**Mr. Reid:** If the new department took Bell to court would you be willing to testify as a witness?

**Dr. Gellman:** We asked ourselves this question before we submitted the brief. Although we are a fairly large consulting company, we are not a large one. We are naturally reluctant to spend a lot of time and effort on such things. It might even be fair for the Committee to ask: Why are these people here anyway? It has cost a lot of time



and effort to produce the brief and come to Ottawa to speak to you. If it did not sound so "corny" I would suggest that, as members of the business community and as citizens having knowledge that could be of use to the Committee, we thought it was the right thing to do.

However, if the Committee, or anyone else, were to ask us to spend more time and effort, on if we were to become involved in any controversy which involved a great deal of time and effort on our part, I think we would have to examine very carefully just how much money we would be willing to invest in further participation.

**Mr. Reid:** My question was this: If, say, the new department were to make an investigation into this, or take the matter to the courts, would you be willing to appear as witnesses, or to be called to testify?

**Dr. Gellman:** I assume we would have to, if we were asked, would we not?

**The Vice-Chairman:** Mr. Cantelon.

**Mr. Cantelon:** Mr. Reid has asked almost the identical questions that I was going to ask. I was curious about why the gentlemen had appeared. I thought they could give us an answer, and this they have done. I also wanted to ask just exactly how solid these cases were. They have indicated that they feel that they are fully documented and that they are prepared, if necessary, to produce evidence to show that they are true. Therefore, my questions have been answered.

**The Vice-Chairman:** Mr. Lind.

**Mr. Lind:** Dr. Gellman, on page 20, referring to the satellite system, you quote the example that it is just as cheap to send a message by satellite from Vancouver to Montreal as it is from Toronto to Montreal.

**Dr. Gellman:** Yes.

**Mr. Lind:** My question is this: Are we on the verge of a complete revolution in communication services, where we will have the line system versus the satellite?

**Dr. Gellman:** Yes, I believe we are. I believe that the evidence of the number of ground stations that are being installed around the world would indicate that this is a very, very significant development and while any forecast or prediction is risky to make in the sense that one cannot be sure of

the margin of error, I think this is a fairly safe one to make.

**Mr. Lind:** Since we seem to have the two, at least, in Ontario and Quebec, we have the Bell system and the CNCP system, would it be a fair question to say that there should not become the monopoly of either system? Should there not be a joint effort with the Canadian government and these various systems?

**Dr. Gellman:** Yes, this is our view. We believe it would be better for the control and, perhaps, even operation of this system to rest with the Canadian government and the Canadian people.

**Mr. Lind:** You would not like to make any recommendations about how that could be done would you?

**Dr. Gellman:** I would prefer not to do this because we really have not thought of any particular mechanisms. On the other hand, it comes readily to mind that the United States might serve as one example where the government is an equal partner with industry in developing such systems.

**Mr. Lind:** How many in the United States—other systems—are in it with the government. Could you outline that for us?

**Dr. Gellman:** Mike, do you know?

**Mr. Holt:** All the United States common carriers own shares in COMSAT. AT&T are the biggest stockholders but ITT, RCA and so on, all own shares—Western Union.

**Mr. Lind:** Thank you very much.

[Translation]

**Mr. Énard:** Mr. Chairman, on page 2 of the brief of the DCF Systems Limited we read:

[English]

It has been demonstrated that Bell Canada has not developed sufficient technical competence in the design of computer-oriented communications systems, or in other advanced systems.

[Translation]

I call your attention to the word "demonstrated." I cannot recall such a demonstration ever having been made. I would like to know when, by whom, and where this demonstration was ever made.

[English]

**Dr. Gellman:** Perhaps it is unfortunate that the phrase "It has been demonstrated" appears on page 2 when the demonstration follows page 2 throughout the brief. We are referring to the specific case histories where we refer to a relative lack of technical competence compared to other competitive entities.

[Translation]

**Mr. Énard:** In your brief, you describe six different cases where you complain about the dealings of The Bell Telephone Company of Canada. Did the DCF Systems Limited Company act as consultant in all the aforementioned cases?

[English]

**Dr. Gellman:** No, sir, we were not. We were the consulting firm, I believe, in two of the six but not in the others.

[Translation]

**Mr. Énard:** Could I know which ones?

[English]

**Dr. Gellman:** As we mentioned in the brief, we have not stated the names of companies involved. Since we indicated we would be prepared to back all our statements with documents, I would ask the Chairman to guide me on this matter since I am not familiar with the proper approach. I am naturally reluctant to give these names unless the...

[Translation]

**Mr. Énard:** I do not think you understood this correctly. I did not ask you to reveal the names of the companies who comprise the object of these cases. I would like to know, in reference to these cases, when you acted as consultant, as technical consultant. I know that concerning Case No. 4, which involves the government, you have acted as the consulting firm. You have acted as such in two cases. I would like to know which was the other case where you acted as consultants. I do not wish to know the names of those concerned.

[English]

**Dr. Gellman:** Case No. 5, I believe. Is that correct, Mike? Case 5 is one of them. No, wait a minute—that is not one. The one where we connected the terminals—Case 6 was a client of ours. Are there any others?

**Mr. Holt:** Case 1.

**Dr. Gellman:** And Case 1—That is it. Those were the two.

[Translation]

**Mr. Énard:** Could you tell us how you obtained this information? Was it from confidential sources? I would like to know if you really have the facts.

[English]

**Dr. Gellman:** It is natural for people such as ourselves in the computer industry to know a lot of people through service consultants in the computer industry and related communications industries. It is also natural for people in the industry to meet and to talk. We have picked up this information and, as we mentioned in our brief to the Committee, we are quite prepared to prove what we say. We have not included names and documents here, mainly because we did not think this would be wise to do. But we would not make such statements without complete proof.

[Translation]

**Mr. Énard:** I do not think that the Committee is interested in knowing any names. It would be of absolutely no assistance to us. But I would nevertheless like to be sure that you have the facts as they really are, for you undoubtedly know, that The Bell Telephone Company of Canada will have to appear before this Committee to answer these charges. I wonder what your attitude would be at that time, if the cases you have submitted to us were different according to the interpretation which The Bell Telephone Company of Canada would give.

[English]

**Dr. Gellman:** All I can say is that we regard ourselves as responsible people. As I said at the outset, we had nothing against The Bell Telephone Company of Canada or any other company. Our motives in coming here today have been stated explicitly by us and subject to it costing us a lot of time and money to get into controversial discussions with the Bell, we stand by our statement.

[Translation]

**Mr. Énard:** If I refer now on page 3, to Case 4—I can well understand that you have no intention of mentioning the names of the companies involved, as you say it. When it is a question of a government department, in my opinion it would be far easier to understand if the department were identified. I

hardly think it would fear reprisals from The Bell Telephone Company of Canada.

[English]

**Dr. Gellman:** We omitted the name here for consistency's sake.

[Translation]

**Mr. Émard:** I do not follow your argument when you speak of "consistency's sake".

[English]

**Dr. Gellman:** We stand by our statement that we are prepared to give the Committee whatever documentation it needs; however, many parts of the Federal Government have been, and continue to be, clients of DCF systems and we owe it to our clients not to divulge any confidences in our dealings with them.

[Translation]

**Mr. Émard:** I now refer to another sentence on page 8. You say here on line 9:

[English]

When asked to divide this price into three separate categories, Bell Canada refused to do so.

[Translation]

According to me and according to your brief, I believe you should have yourselves separated your proposition in at least two categories: You should have established a price for the equipment and a price for the telephone service. If we proceed to page 5, for instance, you mention that the price of a private telephone circuit is \$3 or \$4 per month and per mile. Automatically, then, you should have, I think, made that separation yourself, lie separate the package deal of the Bell Telephone Company of Canada.

[English]

**Mr. Holt:** If I may answer that question: It is not possible for us to give quotations on the equipment or service of another company, especially when those services and rates for those services tend to change with frequency. We know what the normal charge is for a long-distance telephone circuit. We know what the normal charges are for their data sets and other equipment and we know what the normal charges are for their terminal equipment, however, in our experience, these charges tend to vary both with time and with the area in which a quotation is obtained. It is always our policy to rely on the company itself to provide prices with respect to its services.

[Translation]

**Mr. Émard:** Could you tell me if the department involved, on page 8, complained about The Bell Telephone Company dealing with the Board of Transport Commissioners?

[English]

**Mr. Holt:** I do not believe so, sir.

[Translation]

**Mr. Émard:** I would like to go on to page 11, Case no. 6.

I am not quite sure what you mean when you say:

[English]

...Bell Canada to finally obtain their agreement to supply the data sets.

[Translation]

What is the meaning of the word "supply"? Was this a rental or a loan?

[English]

**Mr. Holt:** We purchased the equipment.

[Translation]

**Mr. Émard:** From whom did you purchase it?

[English]

**Mr. Holt:** Our client purchased it through the local telephone company that he was dealing with.

[Translation]

**Mr. Émard:** Your customer in this case was Alberta Government Telephone, was it not?

[English]

**Mr. Holt:** Yes.

**Dr. Gellman:** No.

**Mr. Holt:** Oh, I am sorry.

**Dr. Gellman:** Our client was not Alberta Government Telephones; the supplier was.

**Mr. Émard:** The supplier, because...

[Translation]

Mr. Holt told us a while ago...

[English]

...that we were dealing with Alberta telephone company. That we were dealing with them this project.

**Dr. Gellman:** Yes, were dealing with them as suppliers to our client.



**Mr. Holt:** In this case Alberta Government Telephones had subcontracted the engineering and provision of equipment. In fact, all the detailed design of the system to Bell Telephone operating out of their Montreal office.

[Translation]

**Mr. Émard:** And in this case, your customer purchased the data sets for you, is this not true? Were they purchased from The Bell Telephone Company of Canada?

[English]

**Dr. Gellman:** They purchased the set from Alberta Government Telephones but Bell Telephone assisted Alberta Government Telephones in the technical aspects of providing the necessary service. And when we said that our client purchased them and provided them to us, they were only put into our Toronto offices for test purposes. They were ultimately shipped to our client's offices.

**Mr. Holt:** Let me clarify one point here. We were dealing normally with Alberta Government Telephones. Bell Telephone was responsible for the engineering by virtue of its being subcontracted by AGT. Because we were located in Toronto and were unable to get service from AGT or Bell in Montreal, they instructed us to attempt to purchase the data sets through the local Bell Telephone office in Toronto which we tried to do. We were told that we could not get the data sets unless we leased a telephone—a local telephone, which, of course, we did not need. And this is where the disagreement occurred.

[Translation]

**Mr. Émard:** But, here you blame The Bell Telephone for the time you had to wait for delivery of these data sets.

**The Vice-Chairman:** Would you rephrase your question, Mr. Émard?

**Mr. Émard:** In your brief, here, you say that Bell Telephone is responsible for the delay in delivery of these data sets, but if it was not Bell Telephone which was responsible, why blame them?

[English]

**Mr. Holt:** It was Bell Telephone that was involved in that particular case.

[Translation]

**Mr. Émard:** Could you repeat that? I do not quite understand; what you have just told me is all confused. Who purchased the data sets, and from whom?

27651—3

[English]

**Mr. Holt:** Let me tell you the whole story again. It is confusing and that is partly a characteristic of dealing with telephone companies. The client we were working for was located in Alberta, therefore, we had to deal nominally with Alberta Government Telephones. The test system is located in Toronto. We wished to use two of the data sets to test two of the computers in Toronto because that is where our programming staff is located. We asked Alberta Government Telephones to get us two data sets for test purposes. After a lot of delay and consultation with Bell Telephone, they said they could not do it in the time we required but we could get them directly from Bell Telephone in Toronto. We then went to Bell Telephone in Toronto and asked them to procure us the data sets. They said they could in fact supply the data sets, they had them in stock, but in order for us to use them, we would have to lease a local telephone circuit to and from our office to their exchange. We did not need this and it would have cost money. This is where the first disagreement occurred. When we finally were able to get them to agree to let us install the data sets without supplying a telephone line, the data sets finally arrived after another delay, and I mentioned the routing they took. When they arrived they were wired incorrectly and we were not able to get anyone from Bell Telephone to rewire them; we had to do that ourselves. Does that clarify it?

[Translation]

**Mr. Émard:** Do you believe that the electronic computer industry which is taking on more and more importance should be regulated by the government?

[English]

**The Vice-Chairman:** I think you are going pretty far, Mr. Émard. Are you through with your questions?

[Translation]

**Mr. Émard:** On page 14 Mr. Chairman, the DFC company refers to Microwave Communications Incorporated of the United States which has asked for a licence from the FCC in order to get certain special communications services. I would like to ask a few questions on that topic. Do you believe that it is a good thing to have an alternative microwave network to that of the Bell system?

[English]

**Mr. Holt:** I am sorry. Do we think it is a good thing to have an alternative in the Bell Telephone system? Yes, we do.

[Translation]

**Mr. Émard:** Does not the Department of Transport have full powers, under the act on broadcasting, to issue a licence to operate a microwave network?

[English]

**Mr. Holt:** As I understand the enabling legislation, it is.

[Translation]

**Mr. Émard:** Do you believe that Bell Telephone can successfully oppose such an application?

[English]

**Mr. Holt:** Yes, I believe they would oppose an application by a third party for a competitive microwave system.

[Translation]

**Mr. Émard:** Can you quote some cases where Bell actually did oppose such applications and where its opposition was a success?

[English]

**Mr. Holt:** No, I do not know of any specific cases.

[Translation]

**Mr. Émard:** Are you aware that between Montreal and Quebec, for instance, there are two alternative microwave systems to the Bell system? There is that of the CNCB system and that of the Hydro Quebec.

[English]

**Mr. Holt:** Yes, but I think you may be misconstruing the purpose of our including this case 2 as an example. We are not necessarily advocating a third microwave system. We are advocating, as it is stated there, that such a service should be approved in such situations where it can be demonstrated that another party can offer service where either the rates are better or provide a service which is not presently available. I think we made it clear that this would be only in certain specific instances.

[Translation]

**Mr. Émard:** I have a remark to make: on page 16 of your brief there are two excerpts which appear to contradict each other.

On page 1, you say:

[English]

The effect of this could be a further deterioration in the communications services and equipment now available in Canada.

[Translation]

Whereas on page 16, in paragraph 2, you say:

[English]

It is a fact that Canada has a large, efficient, relatively low-cost telephone network. Service is reasonably good, the quality of the equipment is adequate and it is quite easy to obtain new or additional telephone equipment whenever desired, even when moving from one end of the country to another. The above situation is in marked contrast to the situation in several advanced European nations where government operated telephone companies provide service which varies from inefficient to totally inadequate. In our opinion, the present standard of voice communication services in Canada is second only to that in the United States.

[Translation]

I am wondering, then, if, in both cases, we are speaking of the same Canada?

[English]

**Dr. Gellman:** Yes sir, we are speaking of the same country but we are speaking of two separate kinds of services. We say the voice communication system is very good, the computer communication system is not good enough.

[Translation]

**Mr. Émard:** On page 17, paragraph 2, you say:

[English]

A further deficiency in the state of voice communications in Canada is the slow rate at which electronic switching or touch-tone telephone systems are being implemented.

[Translation]

Do you know how many of the touch-tone telephones there are in Canada at the present time?

[English]

**Mr. Holt:** Do we know how many, or are there many?

[Translation]

**Mr. Émard:** How many?

[English]

**Mr. Holt:** No, we do not.

[Translation]

**Mr. Émard:** Do you know since when you offer this service in Canada?

[English]

**Mr. Holt:** Since approximately two years ago.

[Translation]

**Mr. Émard:** Do you know how many there are in the United States?

[English]

**Mr. Holt:** We know relatively how many there are, yes. May I point out that we did not compare favourably the progress in the United States with that of Canada. We are comparing the progress of the Telephone Company in Canada with what we think could be possible if they were forced to compete.

[Translation]

**The Vice-Chairman:** Are you finished, Mr. Émard?

**Mr. Émard:** No, no. One moment please. If I remember well, when we say: "Touch-tone telephone system", we are speaking of "Push-button" telephones.

[English]

**Mr. Holt:** Yes.

[Translation]

**Mr. Émard:** I know that you have not wanted to compare the touch-tone telephone systems, but as far as I know the touch-tone telephone system in the United States is not too highly developed either.

[English]

**Mr. Holt:** It is much more prevalent in terms of the number of telephones installed. I know that for a fact. If you wish to obtain the figures to compare the relative number installed in the U.S. compared to Canada, per population, I am sure we can get them for you.

[Translation]

**Mr. Émard:** We will certainly know the amount later on.

**The Vice-Chairman:** Mr. Bell.

27651—3½

**Mr. Émard:** I am not through yet, Mr. Chairman. I only have a few questions left. Here on page 19 you say:

[English]

In purely technical terms, the telephone system is not a great deal more complicated than the electricity distribution network.

[Translation]

And yet if I refer to certain declarations which were made here by Bell, it needs important research laboratories; indeed it has but one. Bell representatives told us that last year's research budget, for example, was in the order of \$25 million. If the telephone system is so unsophisticated, why should it spend so much money on research? Does the research carried on at the Bell laboratory deal with the telephone system, or is it aimed at other subjects?

[English]

**Dr. Gellman:** We are not suggesting that the telephone system is simple and uncomplicated. We are simply suggesting that other systems are equally complicated and behave in different ways. If the electric utilities can establish standards for connecting all kinds of devices to their system we do not see why the telephone system cannot do the same thing.

[Translation]

**Mr. Émard:** I am not exactly up to date on these matters, but I believe that the Hydro Quebec or the Ontario Hydro have research laboratories as important as the Bell Telephone laboratories.

[English]

**Dr. Gellman:** It all depends on how you define a research laboratory. I am somewhat familiar with Ontario Hydro and I know they employ very, very many engineers. I know they have one of the most comprehensive computer systems in the country and I know that that computer system is not working merely on customer billing. It is working on engineer and design problems. If you include all that in research and development, as I think it should be, the cases are more than comparable.

[Translation]

**Mr. Émard:** I would not like to discuss technical matters with you, sir, but I do know, for instance, that the Bell Telephone had approximately 700 engineers working in



their plants, in addition to those who work in their research laboratories. I do not think that engineers who work in these plants can be compared to those people actually employed in research laboratories.

• (12:30 p.m.)

[English]

**Dr. Gellman:** We find it very commendable to see so much research being done by Bell Canada and we would encourage them to do more. We are not quarrelling with this at all. All we are saying is, if Bell Canada understands its system it should be able to issue standards on what will hurt the system and what will not hurt the system. If another supplier can connect a device that will not hurt the system, we say, why not, and that is all we are saying.

[Translation]

**Mr. Émard:** I believe that we can move on from here to page 24 to the suggested amendment number 3, as put forward by you. According to amendment number 3, the subscribers could use their own equipment rather than rent it from Bell? What kind of equipment is involved here? Are we dealing with telephones, PBX or computers, or what have you?

[English]

**Dr. Gellman:** I think it could be any of those items. It could be any type of telephone instrument that was manufactured by another company that proved to be superior and the customer found more desirable. It could be data sets or connecting boxes manufactured by any company in Canada or in the world, that was superior. We are simply saying that enough evidence exists to demonstrate that there are superior devices to those supplied by the Bell system. Today it is virtually impossible to connect those devices.

[Translation]

**Mr. Émard:** If we speak of ordinary telephones, for instance, could you give us examples of any country where subscribers buy their own telephones?

[English]

**Mr. Holt:** I can give you several examples. In the United States it is permissible to attach foreign, when I say foreign, I mean non-AT&T telephones, to your telephone system as long as they are connected by means of a telephone jack, provided the telephone itself has previously been inspected by the

telephone company and judged to be suitable for connection to their system. I myself have such a telephone in my home and it works quite satisfactorily. It is not made by AT&T or Bell.

[Translation]

**Mr. Émard:** Do you live in the United States?

[English]

**Mr. Holt:** No, in Toronto.

[Translation]

**Mr. Émard:** You say that this is permissible in the United States, but then it is permissible here too!

[English]

**Mr. Holt:** Technically, it is permissible. We did not include this in the brief because we felt it was not of great interest, but I will tell you the situation. I bought this telephone in response to an advertisement by the Ericsson telephone company, partly because it is much smaller, lighter and aesthetically more attractive than the standard Telephone Company hand set. I was required to sign a contract stating that I would inform the local Bell Telephone Company of the purchase of the telephone within seven days after receiving it and was told that they would then install it for a special service charge of \$25 plus the regular installation charge of \$12, and I would have to pay another \$1.25 a month just as though I was getting another extension telephone. This of course is ridiculous. The telephone came and was made up in such a way that it was directly attachable to a standard telephone jack such as you have in your home. You can only use one telephone at a time and as I had one other standard telephone I did not feel I was cheating the telephone company out of any revenue and that I was paying my bill for the one telephone I did have. To make a long story short, the investigator came to my home and made a great deal of trouble for us. We finally convinced him that we had no intention of removing the telephone, that we felt there was no regulation to prohibit its use, that we were paying our standard tariff for the existent telephone, and they then left us alone.

[Translation]

**Mr. Émard:** You have given me a particular case, but my question was to find out if it

is current practice in any other country to use phones which do not belong to the telephone company.

[English]

**Mr. Holt:** I think I mentioned that earlier. It is permissible in most states in the United States. I have also seen non common-carrier telephones in use to a large extent in Europe and Japan.

[Translation]

**Mr. Émard:** Do you believe that the service is better in those countries where you can use phones provided by other companies?

[English]

**Mr. Holt:** I do not think that is relevant to the question of attachment of phones. In virtually all these cases you are using a phone in addition to the standard telephone company phone, but there are countries in which you can replace the standard telephone company phones and pay for the use of the line.

[Translation]

**Mr. Émard:** Now, when referring to more complex apparatus such as computers, data sets, and data terminals, are you of the opinion that it would be to the customer's advantage if it were possible to use the apparatus of any company whatsoever?

[English]

**Mr. Holt:** Most definitely it would be. As a matter of fact, if you wish, I could give you examples of equipment made by other companies in the United States to replace the equipment made by Western Electric. I am thinking—and this is mainly in the area of the device again, data sets that connect computers to communications systems—of a device made by a company called Milgo, Electronic Corporation which is a communications company started for this purpose. Remember again, you can only use these data sets on leased or private telephone lines. Here is a modem, or data set, as it is known, which will transmit data at up to 4800 bits-per-second over a standard low quality telephone line. I mean by "low quality" the kind of telephone line that you get in your house, which with respect to computer data transmission speed is low quality. To transmit a 2400 bits-per-second over the Bell system and with the Bell system equipment you require what is known as a condition line. In effect you pay extra for filters and special circuits to make sure you have a clean quality circuit and

these cost varied amounts which are relatively substantial depending on the area you are in and so on. This piece of equipment will transmit at a higher speed than the Bell equipment over a poor quality circuit and in addition has enough capacity left to permit you to transmit three simultaneous teletype circuits all over one low quality voice-grade circuit. In other words if you were a company that needed to send high speed data plus two or three teletype circuits you could do it all over a low quality telephone line with this piece of equipment. With the corresponding Bell system, using Western Electric equipment, you would need a high quality circuit plus separate teletype circuits. The customer he is saving the cost of those separate teletype circuits plus the cost of conditioning a telephone line. This company's equipment and that of the Bell Telephone are virtually the same price, although this one is actually a little cheaper. So I think there are obvious advantages to the consumer.

[Translation]

**Mr. Émard:** Is this equipment made by a Canadian company?

[English]

**Mr. Holt:** No, this is made by an American company.

[Translation]

**Mr. Émard:** Exactly. Now, to come back to a statement you made a while ago, you said:

[English]

I would predict that a lot of new Canadian companies would soon develop

[Translation]

I am still referring here to Clause 3. Would not the opposite occur? Would not all American companies move into the Canadian market and take it over completely to the detriment of Canadian manufacturers?

[English]

**Mr. Holt:** I think your question answers itself. The reason there are no Canadian companies in this business is that you are not allowed to use their equipment in Canada. If you were allowed to use their equipment in Canada companies to produce it would soon appear, and of course there would be competition from the American companies. But if, for example, tomorrow Bell Telephone made it permissible to use non-Bell equipment on



these private circuits, as you can in the United States, immediately there would be a large number of non-Bell communication manufacturers in Canada selling equipment. Why? Because no Canadian company has been given the opportunity of making this equipment. If the regulations were changed I think we would soon have companies developing to the point where they would be capable of competing with these American manufacturers.

[Translation]

**Mr. Émard:** One last question.

**The Vice-Chairman:** I do not want to be unpleasant.

**Mr. Émard:** If this clause would be put in, would some of the subscribers still ask for your advice?

[English]

**Mr. Holt:** Yes, I think so. There would possibly be fewer problems so we could well defeat our own purpose. We look to a general improvement in the ease in implementing computer or intercommunication systems as naturally benefitting us as it would all the other consulting firms and computer equipment supplying firms in the country. I feel the incidence of people requiring advice and consulting services would remain about the same.

[Translation]

**Mr. Émard:** Then your personal business would not be affected?

[English]

**Mr. Holt:** I think we would benefit from a general increase in the use of computer or intercommunications systems.

**Mr. Bell (Saint John-Albert):** A supplementary question comes to my mind on this matter of the telephone. Do you know if it costs more to get a coloured telephone in the United States than it does in Canada.

**Mr. Holt:** I do not know that. I believe it is probably the same, but I really cannot say.

**Mr. Bell (Saint John-Albert):** But you do suggest in this article in the *Globe and Mail* that the mark-up on a coloured telephone in Canada seems to be greater than would be necessary.

**Mr. Holt:** I am not sure about mark-up or manufacturing cost. It just seems strange

that you should have to pay an additional one-third charge just because the telephone plastic case is a different colour from black.

**Mr. Bell (Saint John-Albert):** Well that is interesting and we can revert to that later.

**Mr. Chairman,** I want to get back to this business of the international market that the Bell-Northern complex puts forward. I appreciate that this is not perhaps your main point of view but if you have any comments on it I think they would be helpful. One of the arguments that has been made is that we should permit a certain degree of monopoly in Canada in order to gain a bigness that would enable us to get into the international markets. Just to quote one statement might be helpful. In giving evidence before the Committee on November 21, the President of Northern Electric, at page 248—and this seemed to be a little different from what Mr. Holt said—stated:

I might add incidentally, that this kind of exercise we are convinced is good for us and good for the country. It sharpens our technical competence and it puts great pressure on our cost reduction capabilities.

This referred to a question that I had asked about the international business and he was explaining that. Just to be helpful, he also said that these jobs are by anyone's standards big. How do you resolve in your mind the statement you made a while ago, that smaller companies might be able to get into this business.

**Mr. Holt:** A firm known as R. H. Nichols Co. Limited, of Toronto recently won a contract I believe of the order of \$4 million or \$5 million to provide a microwave telemetry system for Iran. Another Vancouver consulting engineering firm, the name of which escapes me, also won a large contract in the same area. One was through the Iranian government, the other one was from an oil company, and they were subject to international competition. These firms are not big but they have a relatively good reputation. R. H. Nichols also won a very large contract with the Trinidad-Tobago power station for a telemetry system to cover the island of Trinidad, and again against international competition. To me the factors which mitigate towards improving Canada's international competitive posture are not bigness or monopoly but rather the development of technical and marketing competence. You have to go out there and sell the product. It



has to be a good product and it has to compete with international products. It does not matter what the size of the company is. Of course a bigger company is in a better position to develop and market products, but in the world market it has often been the small company with the aggressive intent that has won these markets. I think that the same thing applies to the communications business. I believe there are enough examples of this already in Canada to prove the point.

**Mr. Bell (Saint John-Albert):** In other words, you are saying that we might be able to get into the international market for a different type of business possibly just as much but not in the type of business that is dependent on bigness as much as on quality and research of our own.

**Mr. Holt:** I do not think, for example, that you will get companies competing in the manufacture of telephone switching equipment because it requires an enormous capitalization and enormous facilities. Perhaps in the international market there would be lots of competition but, within Canada, I think Northern Electric, because it has been in business so many years and has a captive market, will not have any competition in this area. But in the other areas, especially with the tremendous development in the computer oriented areas, which are the ones we are interested in, there are a number of products that are not even in existence today, and of those that are in existence and for which competition is extremely active at the moment a small Canadian firm could compete.

**Mr. Bell (Saint John-Albert):** Of course you realize that Northern has developed here certain types of products that are unique in the world. Should they not be able to gain international business for that reason?

**Mr. Holt:** Of course they should be able to gain international business but what we are saying is that it is not necessary for them to have exclusive access to the Canadian markets in order to gain international business.

**Mr. Bell (Saint John-Albert):** In that same connection you complain of a delay in the knowledge of the parent American company becoming available in Canada...

**Mr. Holt:** Yes.

**Mr. Bell (Saint John-Albert):** ... and this affects some of the modernization that you

would like to see in this over-all picture. I find that hard to resolve with the claims that Bell-Northern made, that it is because of this technical knowledge as much as anything else that they are able to get into these international markets.

**Mr. Holt:** I cannot agree with that. We were mainly referring to services available in Canada being delayed as a result of time taken to...

**Mr. Bell (Saint John-Albert):** It might be some branches of the industry other than what you are actually...

**Mr. Holt:** It could well be. We are mainly concerned with services that are available in Canada, of course. You read about things announced in the United States and you know the equipment should be available in Canada, because the technology is not dramatically new, but they are not available for some reason, and it takes a year or two, and sometimes more, before they are.

**Mr. Bell (Saint John-Albert):** In this context at least, would you agree with this assessment: that Bell-Northern perhaps have been able to get into the international business and do Canada some good—we will have to investigate this further I believe—but that at the same time they may be sacrificing some of the economies and efficiencies for strict domestic business? And is that not a way we might resolve these two matters that I pointed out? You are complaining about a slowness in coming forward in some aspects of telecommunications and computers alike but at the same time we seem to be well able to get this international business. Is this not about the only way we can resolve it.

**Dr. Gellman:** That is a possible explanation.

**Mr. Holt:** I am not sure it is possible. I am not sure that I have enough evidence to agree with that.

**Mr. Bell (Saint John-Albert):** Well, do you not have any knowledge whether it might be possible, as has been done in the United States, to separate domestic business from international? In other words, we might permit consortiums to compete with these seven large world companies, with which Northern claims there is the main problem.

**Dr. Gellman:** I believe, Mr. Chairman, that we are somewhat moving away from the area to which we were addressing ourselves.

I am not sure that we are well equipped to discuss international matters. We were only describing cases that came to hand.

**Mr. Bell (Saint John-Albert):** I appreciate that but I think you must agree that the two go together and this is one of our big problems. I do not have exact quotes but the intimation is that it is good for Canada, particularly in the international business, if some sort of a monopoly situation is allowed to develop. If we are ever going to resolve this matter I think we have to find a formula that will separate this.

**Mr. Rock:** Mr. Holt, I would like to come back to the line of questioning on data equipment. The IBM Company have a data centre in Toronto. They also rent IBM teletype machines to different firms which can get information from the data centre in Toronto. They lease the Bell Telephone lines, do they not?

**Mr. Holt:** Yes, that is right.

**Mr. Rock:** Bell Telephone also has their own TWX, which is manufactured by Northern Electric, and GE have a data centre in Montreal with which these people are connected. Data information is an example of where there is no monopoly. Companies can either choose the IBM people or the Bell Telephone people, who own the TWX system with GE. Do you not agree that in this sense there is a competitive field in telecommunications?

**Mr. Holt:** You are confusing it a little bit. IBM make terminals and General Electric use the teletype terminals made by a subsidiary of Western Electric, Teletype Corporation.

**Mr. Rock:** Would you repeat that, please?

**Mr. Holt:** General Electric do not make their own terminals for conversational programming. They use what is called a Teletype Corporation ASR33 or 35, which is manufactured by Teletype Corporation, a subsidiary of Western Electric. I think Northern Electric may make those in Canada under license from Teletype Corporation but I am not sure.

**Mr. Rock:** It does not make any difference. I am just saying that you have two systems here, one run by IBM and one by Bell.

**Mr. Holt:** No, they are not run by Bell.

**Mr. Rock:** That is even better. Then you are...

**Mr. Holt:** You are talking about something completely different. You are talking about conversational time-sharing services which...

**Mr. Rock:** That is right.

**Mr. Holt:** ...Bell Telephone is not yet engaged in. You are talking about two computer companies competing with each other.

**Mr. Rock:** Even so, they are still using Bell Telephone lines, are they not?

**Mr. Holt:** Yes, because they have no choice, of course.

**Mr. Rock:** And in that system Northern Electric manufacture the teletype called TWX?

**Mr. Holt:** It is under license if they do manufacture it. You probably know.

**Mr. Rock:** I understand it is manufactured in Montreal.

**Mr. Holt:** That could well be.

**Mr. Rock:** It is normal that it would have to be under patent licence. Even you are involved, I am sure...

**Mr. Holt:** Oh, yes. I am not objecting, I am merely saying that it is an American product that may be made in Canada as well.

**Mr. Rock:** This is normal at times. It can also be vice versa. I am getting at the fact that in your brief you appear to say that there is difficulty, or something, about using the lines of the Bell Telephone Company and yet IBM is using them and there is also this other system, so you have two competitive systems using the Bell lines.

**Mr. Holt:** Of course, but we are not talking about that at all, we are talking about competing with Bell Telephone in the supply of such equipment and lines. We feel there should be more competition there.

**Mr. Rock:** But at the same time Bell owns Northern and Northern manufactures this teletype known as TWX. Even though it is under license they are still manufacturing it.

**Mr. Holt:** Yes.

**Mr. Rock:** So you have competition between IBM and their teletype and Northern Electric, which is Bell, and their teletype.

**Mr. Holt:** Exactly, and Bell Telephone are now quoting one price for the terminal unit, the device which is connected to the telephone system, as well as the telephone circuit, whereas IBM or anyone else who makes those units, can only quote a price for the terminal. We welcome competition from Bell Telephone in that area but we think it

should be made on a basis where other people can compete equally.

**The Vice-Chairman:** Gentlemen, this completes the questioning on the brief of DCF Systems Ltd. I want to thank the Committee for their co-operation. I also want to thank the two gentlemen for their well-prepared brief. Thank you very much.



## Appendix A-10

Brief

Pertaining to

Bill C-104

An Act respecting The  
Bell Telephone Company of Canada

DCF SYSTEMS LIMITED

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### INTRODUCTION

DCF Systems Limited is a privately owned, Canadian company of management consultants. We specialize in the analysis, design and implementation of computer systems for industrial and government organizations. The increasing use of computer-oriented communications systems has enabled DCF Systems to acquire experience in communications systems technology and to develop an awareness of the problems faced by Canadian users of communications facilities. Many of these problems are common to the development of any advanced technology, but some are attributable to the practices of the communications common carriers, in particular the Bell Telephone Company of Canada.

This brief was compiled by DCF Systems in response to the introduction of Bill C-104

in the House of Commons. Our purpose in preparing the brief is to make Parliament aware of some deficiencies in the practices and policies of The Bell Telephone Company of Canada and to recommend action to rectify these deficiencies which have slowed down the development of advanced data processing systems in Canada.

As independent consultants, DCF Systems does not manufacture or supply equipment of any kind, and is not affiliated with any communications equipment supplier or common carrier. DCF Systems has, therefore, no financial or other advantage to gain from the recommended changes to Bill C-104. Our purpose is to improve conditions for our clients and others who use communications facilities for their computer systems.

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## 1

## SECTION I

## SUMMARY

The House of Commons Standing Committee on Transport and Communications is now examining Bill C-104, an Act respecting The Bell Telephone Company of Canada.

Clause 7 of this Act would extend the company's powers to include all forms of telecommunications equipment and services, presumably including communications satellite systems.

Clause 8 of Bill C-104 would give The Bell Telephone Company of Canada (herein referred to as Bell Canada) the power to invest in companies other than communications common carriers. This clause would permit the company to acquire ownership or control of companies in the electronics, communications equipment or electrical equipment manufacturing industries, and in any other industry chosen by the company.

It is the opinion of DCF Systems Limited that the above clauses would enable Bell Canada to establish an effective monopoly in virtually all areas of communications services and equipment. It would also enable it to extend this monopoly into several non-communication fields, particularly in the electronics industry. The effect of this could be a further deterioration in the communications services and equipment now available in Canada, particularly in the areas of computer data transmission and other advanced communications systems.

As consultants in computers and communications systems, we have had opportunities to observe at close hand the operations of Bell Canada and the other common carriers. In our opinion, Bell Canada has used its existing powers to restrict the development of advanced communications systems in Canada. In so doing, it has prevented the establishment of a vigorous Canadian communications equipment and services industry, and denied Canada the economic benefits of such an industry.

## 2

It has been demonstrated that Bell Canada has not developed sufficient technical competence in the design of computer-oriented communications systems, or in other

advanced systems. In our opinion, Bell Canada has practiced a policy of restraining the activities of competing manufacturers and common carriers until it can develop competitive services and products. To accomplish this, Bell Canada has often employed discriminatory pricing practices to eliminate competitive offerings.

In this brief, we have documented cases to support the above observations. We believe that Bill C-104 should be revised to ensure that Canada has efficient, economical communications facilities and services along with a competitive communications equipment industry.

Some of the recommendations we offer to achieve the above are:

1. Eliminate Clauses 7 and 8 from Bill C-104.

2. Amend Bill C-104 to include a clause requiring Bell Canada to refrain from discriminatory pricing practices for any communications service.

3. Amend Bill C-104 to include a clause requiring Bell Canada to develop standards to permit the attachment of non-Bell equipment to Bell Canada circuits and facilities where desired by Bell Canada customers. The company should also be prohibited from using its powers to discriminate in any way against the users or suppliers of such equipment.

4. Amend the Railway Act to include a clause permitting other communications companies to offer special communications services or facilities in competition with Bell Canada, whenever it can be established that the existing common carrier services are inadequate.

These and other recommendations are discussed more fully in subsequent sections.

## 3

## SECTION II

ANALYSIS OF THE CURRENT  
OPERATING METHODS AND  
POLICIES OF BELL CANADA

It is useful to examine the current operating methods and policies of Bell Canada in relation to the existing powers assigned to the company. This will provide a basis for judging whether the company's application for additional powers should be granted. It is



our contention that the company has abused its powers and failed to live up to its obligations, to the detriment of communications users in Canada.

The best way to substantiate this contention is to describe actual cases in which the methods and policies of Bell Canada are open to question.

These cases, described below, were either observed directly by DCF Systems' consultants or were reported by reliable sources in the communications and computer industries.

The names of the organizations involved are omitted, but if necessary they can be identified, in confidence, to the committee.

## 4

## Case 1

## Discriminatory Pricing-High-speed Switched Transmission Services

In November of 1966, a large petroleum industry company in Edmonton, Alberta was considering the installation of a high-speed switched data circuit to enable a computer in Edmonton to transmit and receive data to and from a computer located in Ontario. Since the transmissions were to be of an intermittent nature, it was not necessary to have a private voice-grade telephone circuit. A switched telephone line, however, was not adequate, since the transmissions were to take place at a speed well above the maximum data transmission rate of a conventional switched telephone circuit. This rate is normally about 1200 bits-per-second (baud) under the best conditions.

Accordingly, the company decided to take advantage of a new service offered by the Canadian National/Canadian Pacific Telecommunications Company, in the form of their broadband switching network. This network permits data to be transmitted at speeds up to 2400 bits-per-second, through special electronic data switching exchanges located in Montreal, Toronto, Winnipeg and Vancouver. These exchanges are capable of transmitting switched high-speed data at high reliability, since they employ electronic switching techniques as opposed to the electro-mechanical switching relays employed in most telephone company switching exchanges. The petroleum company then received a formal proposal from CN/CP Telecommunications for a circuit operating at a normal speed of 2400 bits-per-second at a cost of \$100 per month per location, plus 60 cents per minute for each call. On November

29, 1966, the petroleum company received an unsolicited proposal from Alberta Government Telephones acting as sales agent for the Trans-Canada Telephone System, of which Bell Canada is the dominant member. This proposal offered a service known as "Data-line" service and was described as a new Trans-Canada Telephone Company offering, enabling the transmission of data at 2000 bits-per-second, at identical cost to the CN/CP Telecommunications proposal.

## 5

An investigation by DCF Systems Limited revealed that Bell Canada had no such facility in existence, capable of transmitting switched data at those speeds. It was then concluded that the telephone company was offering, in fact, a private-leased telephone circuit which normally costs between \$3 and \$4 per month per mile, depending on the total mileage of the circuit. In effect, Bell Canada was offering a private circuit which would normally have cost of the order of \$5,500 per month for only \$200 per month, plus 60 cents per minute for each call.

Subsequent investigations of these circuits were made by DCF Systems, and it was learned from representatives of Bell Canada in Ontario that the current offering was designed as a temporary, stop-gap measure until Bell Canada could prepare its own broadband switching service. This service is not expected to be in operation until late 1968.

In this particular case, the petroleum company decided to stay with the CN/CP circuit on the basis that it was a definite, existing offering and not a manipulation of existing rates or services. In this case, the CN/CP were able to realize some return on their substantial investment in a new and advanced form of message switching facility. In the majority of cases, however, it is feared that most clients will accept the Bell Canada offering rather than venture into a new form of service. The next case will illustrate this point.

## 6

## Case 2

## Discriminatory Pricing-High-Speed Switched Data Transmission

A large Ontario paper manufacturer required high-speed switched data transmission to locations in the Maritime Provinces and to Winnipeg, Manitoba. Proposals were

received from CN/CP Telecommunications and Bell Canada for the installation of a 2400 baud switched data circuit. Again, the Bell Canada tariffs matched exactly the prices previously quoted by CN/CP Telecommunications and in this case, the client decided to give the business to Bell Canada. On receiving the contract, Bell Canada installed the service within a few weeks, and it was operated by the customer without any bills for the service being received for over two months. It was later determined that Bell Canada did not even have meters for the purpose of recording call durations, as required by switched data service. This, plus the known lack of any high-speed data switching system, is indicative of the fact that Bell Canada is using existing telephone leased circuits and charging privileged customers only for switched circuit utilization. In effect, clients across Canada who lease private telephone circuits from Bell Canada are subsidizing other clients who present Bell Canada with a competitive threat.

Another effect of this policy seems to be the limitation of the market acceptance of the CN/CP broadband switching service, even though it is a definite advance in the field of high-speed data transmission. In this manner, Bell Canada is ensuring that CN/CP Telecommunications is confined to a relatively small share of the total communications market in Canada.

## 7

## Case 3

## Discriminatory Pricing—Client Use of Non-Bell Equipment

In the spring of 1967, a large Toronto trust company approached Bell Canada for a proposal to connect a large computer system in one office building to computer terminals located in another building under construction across the street from the first building. The telephone company responded with a reasonably priced quotation to run cables under the street to connect both buildings, under the assumption that the Bell Canada data sets would be used to connect the computer to the terminals. The data set is a device which converts computer data to modulated signals suitable for transmission over telephone lines. Data sets offered by Bell Canada are usually manufactured by Western Electric Company in the United States.

Shortly after receiving the first Bell Canada quotation, the trust company decided to use data sets manufactured by the computer manufacturer supplying most of their computer equipment. When informed of this, the Bell representatives told the company that only a very special type of cable could be employed, instead of the one originally planned. In addition, the cable had to be run from one building to the Bell Canada Switching Office several blocks away, and then back to the second building. The additional cost for the special cable and the extended cable run amounted to some \$25,000, compared to an original nominal fee when Bell Canada planned to use its own data sets.

The above example illustrates the policy of Bell Canada to inhibit or restrain customers from using data sets or other communications equipment of non-Bell System origin. In many cases, the equipment offered by competitive manufacturers is superior in both price and performance to that offered by Bell Canada. Nevertheless, Bell Canada appears to have a policy of making use of equipment other than its own as difficult as possible for the customer.

## 8

## Case 4

## All-Inclusive Pricing Practices

In early 1966, a large Federal Government department, located in Toronto, decided to employ a computer terminal linked to a Federal Government computer in Ottawa. Specifications were issued to both computer and communications equipment manufacturers for bids on the communications circuit, data sets and terminal equipment. In this case, Bell Canada presented a package proposal quoting one price for the entire system, including the communication lines, data sets and terminal hardware. When asked to divide this price into the three separate categories, Bell Canada refused to do so. In this case, it was impossible for the competing communications and terminal equipment suppliers to offer an attractive proposal, in opposition to Bell Canada, since Bell Canada was the only company able to offer all components of the system. Since Bell Canada has a virtual monopoly on the provision of communication circuits in most areas of Canada, it is obviously unfair to permit the company to offer packaged services when competing companies are not in a position to do this. There is no reason why Bell Canada should not be permitted to quote on all three areas



of a system such as this. They should, however, be compelled to separate the price and service conditions for each category of the system. This will permit other companies, common carriers, and equipment manufacturers to offer competitive bids, and will ensure that the customer receives the most efficient system for his money.

9

#### Case 5

##### All-Inclusive Pricing—Computer Terminal Equipment

In Canada the use of conversational programming at time-sharing computer systems has grown at a dramatic rate. Such systems require a form of alphanumeric typewriter input-output, to be provided by machines or terminals located in the premises of the various customers using the central time-sharing computer. The most common of these is the Teletype Corporation ASR-33 unit found in many business organizations. In order to install a conversational terminal, it is necessary to buy or lease the terminal equipment itself, then contract with a common carrier for a communications circuit, and then buy or lease data set equipment to connect the terminal to the common carrier circuit.

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At present, there are various manufacturers competing to offer terminal equipment and data set equipment. In addition, CN/CP Telecommunications offers very vigorous competition to Bell Canada for the supply of low-speed communication circuits to connect these terminals to central computers. In the summer of 1967, Bell Canada began to attempt to eliminate this competition by offering a packaged "Data-Com" service which consists of a standard ASR-33 Teletype, a data set, and a communications circuit for a total price of \$65 per month. The communications tariff applies only to local communication requirements such as a large time-sharing computer in Toronto servicing various terminals located within metropolitan Toronto. With this offering, Bell Canada effectively eliminates competition from other common carriers, and from other manufacturers of communications equipment and data sets, since Bell Canada is the only company in a position to offer a package service for an all-inclusive price. Such an offering is unfair, both to the computer suppliers who offer computer terminals for use with their

own large machines, and to the other common carriers who compete with Bell Canada. It is also unfair to the various manufacturers of adapters and data sets to connect such terminals to communications lines. None of these are in a position to compete with Bell Canada, since they cannot offer an all-inclusive service. As in Case 4, Bell Canada should be forced to separate the pricing for each component of their communication services, in order to permit the maximum degree of competition and the maximum benefit for communication users in Canada.

11

#### Case 6

##### Restricted Client Use of Bell Equipment

In the fall of 1966, DCF Systems Limited asked Bell Canada to supply two Western Electric 103F2 data sets for the purpose of connecting two small computers located in a DCF office. The purpose of this installation was to test data transmission between the two computers, prior to their being installed in remote locations for a DCF client. Bell Canada placed every obstacle in the way of installing and implementing such a simple system, for reasons we are unable to determine. Initially, Bell Canada refused to supply the data sets unless they were permitted to install and bill DCF Systems for a local leased telephone circuit from our office to the Bell Switching Centre and then back to our office. Bell Canada was extremely insistent that this be provided even though there was no requirement for such a line.

Eventually, we were able to exert enough pressure on Bell Canada to finally obtain their agreement to supply the data sets. After an unnecessary delay of several months, the data sets finally arrived and were inspected by DCF Systems' consultants. It was observed that the data sets had been shipped from the Western Electric Plant in New Jersey to Bell Canada, then to the Northern Electric Plant in Ottawa, from there to Alberta Government Telephones in Edmonton, and from there to Bell Canada in Toronto, and finally to DCF Systems. During this circuitous route, the data set cartons had never been opened or in any way added to or tested by either Bell Canada or Alberta Government Telephones. This was observed despite the insistence of Bell Canada that it was fully responsible for the design, manufacturer and systems assistance for these data sets. Upon further inspection, it was



determined that the data sets had been wired so that they were unable to communicate with each other. DCF Systems requested Bell Canada in Toronto to rectify this error, but after several days of negotiations and discussions with various engineers, it was determined that Bell Canada had no personnel in Toronto capable of handling this problem. DCF consultants then undertook to modify the data sets themselves and were successful in making them function correctly.

## 12

This example illustrates the fact that Bell Canada is totally reliant on Western Electric in the United States for the supply and engineering of data sets, and various data transmission devices. Furthermore, they have few personnel located in Canada who are capable of providing technical advice or assistance in the use or modification of such equipment. With this in mind, it is difficult to understand why Bell Canada does everything in its power to inhibit customers from using data sets of non-Western Electric manufacture, many of which are less expensive and superior to the Western Electric equipment in both performance and functional capability.

It would seem evident that Canadian communication users should have access to such equipment, either of U.S. or Canadian manufacture, and should be able to use it freely in situations where the Bell System equipment is not competitive.

## 13

## SECTION III

*Proposed Revisions to  
Common Carrier Regulations*

Cases similar to those described above have occurred in many parts of Canada and the USA. In the U.S., the Federal Government is now moving to end these abuses of common carrier power, as indicated by two recent cases:

## Case 1

FCC Tariff Revision Proceeding—Carterfone Case

In a recent U.S. test case, the Carter Electronics Corporation requested FCC permission to install electronic devices interconnecting telephone and two-way radio systems. Several of these simple devices had already been installed and used successfully before

the Bell System filed a complaint against them.

The FCC Common Carrier Bureau rejected the complaint and recommended ending the restriction against attaching devices to telephone lines other than those supplied by telephone companies themselves.

The FCC decision stated that:

"The telephone company should be ordered to file a tariff that affirmatively states that customer-provided equipment may be attached so long as it is not hazardous or detrimental to public telephone service. Also, the telephone company should provide reasonable standards for foreign attachments."

The FCC hearing examiner in the Carterfone case made the following observations regarding foreign attachments in general:

"I am struck with the inherent unfairness of a system which permits the telephone companies to bar the use of equipment which competes with their own. Possibly, the time has come to consider the establishment of a process whereby suppliers of attachments might submit them to the telephone companies for expeditious approval or disapproval under objective standards."

## 14

The case is regarded by industry observers as highly significant to the further development of a progressive, competitive communications industry in the U.S.A.

## Case 2

Microwave Communications Inc.

An application was filed with the FCC to furnish special microwave communications services between Chicago and St. Louis.

The FCC Common Carrier Bureau recommended that Microwave be allowed to compete, as an experiment, stating:

"It could serve to create new opportunities for the manufacture and sale of computer services, hardware, software and related equipment; to develop new or lower cost equipment for private microwave users, and even contribute additional revenues to common carriers connected to Microwave systems."

The FCC also stated that AT&T and Western Union rates are too high and their standard services do not meet special business needs.

The above cases illustrate the growing belief that common carriers should not be granted complete monopoly powers in communications fields that can benefit from competition.

## 15

In Canada, it is interesting to note that Robert Stanfield, when he was Premier of Nova Scotia, refused to permit Bell Canada to acquire control of Maritime Telephone and Telegraph, primarily because Bell Canada would force M.T.&T. to acquire all its equipment from the captive manufacturing subsidiary, Northern Electric. In the past, M.T.&T. has purchased equipment from communications suppliers in Canada, the U.S.A. and Europe on the basis of price, quality and performance. If taken over by Bell Canada, M.T.&T. would be compelled to employ Northern Electric as a virtually exclusive supplier, irrespective of price, quality or performance.

These and other examples raise several questions in the minds of an objective observer:

1. Should a public utility be permitted to own a captive manufacturing company?
2. Should the same utility be permitted to eliminate competition from other manufacturers by purchasing almost exclusively from its subsidiary?
3. Does the Canadian economy benefit from the elimination of competition in a large manufacturing industry?

In our opinion, the answer to each of the above questions is an emphatic NO.

## 16

## SECTION IV

*Voice Communications*

Until now, this brief has concentrated primarily on aspects concerning data transmission and advanced communications systems. This is because the deficiencies of Bell Canada service and policies are most evident in these areas. In addition, however, there are some aspects of the voice communications system which need improvement.

It is a fact that Canada has a large, efficient, relatively low-cost telephone network. Service is reasonably good, the quality of the equipment is adequate and it is quite easy to obtain new or additional telephone

equipment whenever desired, even when moving from one end of the country to another. The above situation is in marked contrast to the situation in several advanced European nations where government operated telephone companies provide service which varies from inefficient to totally inadequate. In our opinion, the present standard of voice communication services in Canada is second only to that in the United States.

Despite this, it is our belief that much could be done to further improve the already high standard of voice telephone communications in Canada. In the explanatory notes accompanying Clause 8 of the Bill C-104, the company states that:

"The present high standards of telecommunications enjoyed by Canadians are the fruit, in no small measure, of foreign research and development."

The foreign technology referred to is, of course, that of the United States and this note appears to concede that Bell Canada is almost totally reliant on U.S. technology for use in its own equipment in Canada. It also appears to acknowledge that Canada will, of necessity, lag behind the U.S. in the implementation of new technology and equipment. This lag will be equivalent to the time required for the U.S. company to export the techniques and knowledge necessary to enable the Canadian telephone manufacturing operation to implement the new systems and equipment. An example of this is the anticipated two-year delay in making inward WATS (Wide-Area-Telephone-Service) available in Canada.

## 17

A further deficiency in the state of voice communications in Canada is the slow rate at which electronic switching or touch-tone telephone systems are being implemented. At the current rate of implementation, the conversion of the majority of Canada's telephone systems to touch-tone equipment will not be completed until a decade from now. In view of the pace of technology in other fields, this schedule is obviously unacceptable. Despite this, the monopoly position enjoyed by Bell Canada and its associated companies in the Trans-Canada Telephone System, means it is unlikely that the schedule will be adopted in any way other than that required to suit the purposes of Bell Canada.

The electronic exchanges are not merely a new gimmick designed to obsolete current



telephone hand sets and exchanges. Electronic switching offers significant advantages both to the users and to the telephone company itself. To the user, it simplifies the operations required to make a call, permits a call to be automatically rerouted to other telephones when the party is absent, makes it possible to organize conference calls automatically covering the entire country, and of importance to industry, makes it possible to use the telephone as a simple, inexpensive data entry terminal to central computer systems. For the telephone company, electronic switching offers vastly reduced costs, simplified maintenance and diagnostic procedures and simplified and more comprehensive billing and accounting procedures. It would appear that if other companies had the opportunity to compete in the manufacture of such electronic switching equipment, the speed of implementation would be vastly improved. As it is, the speed of implementation is controlled by the capability of the Bell Systems manufacturing subsidiary to design and produce the required equipment.

18

Full utilization of Canada's telephone system by the majority of the population is still not realized due to an unimaginative and unnecessarily expensive rate structure for long-distance calls. In the U.S. it is now possible to call coast-to-coast in the off-peak hours for as little as 75 cents. In Canada, the corresponding rate is still approximately \$2. The principal cost factor in voice communication, both long-distance and local, is the cost of establishing and maintaining the extensive switching facilities and staffing them with operators. It is a fact that these exchanges must be designed to handle the maximum peak load traffic which normally occurs during the business hours. In the off-peak hours, particularly in the late evening, the telephone exchanges are operating at a very small percentage of total capacity. Limited attempts have been made by Bell Canada to improve off-peak utilization and spread the discretionary call load more evenly throughout the calling day. To some extent the reduction of evening rates has been achieved by Bell Canada in the areas in which it has exclusive jurisdiction. It is to the credit of Bell Canada that it has implemented such a system. It is also probable that the full influence of Bell Canada could be applied to induce the other members of Trans-Canada Telephone System to make

drastic reductions in off-peak long-distance dialing rates throughout Canada.

Other aspects of the tariffs charged for voice communications seem questionable. One example is the charge of between \$10 and \$12 for the lifetime use of a coloured hand set. It is difficult to appreciate the necessity for such a charge in view of the fact that the cost of the plastic-moulded case would seem to be completely independent of the colour of that case. Even if this is not true, the additional cost would certainly not be of the magnitude charged by Bell Telephone for the use of coloured telephones. The cost of any special feature such as push-button telephones, buzzers, speaker telephones, etc., is far out of proportion to the actual cost of the additional hardware involved. Bell Canada appears to be able to charge these prices simply due to the fact that there is no competition or no control of their pricing structure for such additional features. Special features such as these could be offered as vastly reduced prices by competitive manufacturers if they were permitted to compete in these areas.

19

It would seem that the entire Canadian public would benefit from the availability of competitive telephone equipment for use in the home and office. This could be achieved by simply compelling Bell Canada to issue standards for the connection of non-Bell equipment or attachments to the telephone network to ensure that they would not interfere electrically, or in any other way with the operation of the telephone system.

The electricity distribution system provides an example of the feasibility of such an approach. The electric utilities establish standards for the connection of devices made by a number of manufacturers for use on the utilities lines and facilities. These standards must be adhered to by all manufacturers of electrical equipment, and are enforced by the utility.

In purely technical terms, the telephone system is not a great deal more complicated than the electricity distribution network. It is unlikely that most Canadians would accept the electric utilities having monopoly control over the manufacturing of electrical goods and appliances for connection to their distribution system. Yet, most Canadians accept without question the monopoly the telephone companies enjoy over the manufacture of the facilities and equipment to be connected to their system.



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## SECTION V

*Satellite Communications*

It is not the purpose or scope of this brief to deal with the question of satellite communications. However, the attitude of Bell Canada towards the concept of satellite communications is indicative of its attitude towards progress in other fields of communications and its reluctance to implement such progress until forced to do so. Bell Canada in the past has shown little or no interest in utilizing the tremendous potential of satellites for long-distance voice, data and television transmissions. As soon as other groups put forward concrete proposals for the construction and operation of a Canadian satellite communication system, Bell Canada immediately responded with statements to the effect that satellite communications were the due right and privilege of the common carriers and should not be entrusted to any other group. Clause 7 of Bill C-104 is apparently intended to enable Bell Canada to participate in a satellite communications system.

As most members of the committee are undoubtedly aware, the cost of transmitting voice data or television transmission via satellite is completely independent of the distance the transmission must travel. Thus, a telephone or data message sent from Vancouver to Montreal would have the same cost to the common carrier as a message sent from Toronto to Montreal via the same satellite system. If Bell Canada or the other common carriers are given the authority to operate satellite communication systems, it is doubtful that the common carriers would pass on to the users of communication services the true savings resulting from a satellite transmission system.

Bell Canada, with a substantial investment in existing land lines and microwave communication facilities, would undoubtedly not be able to charge for long-distance communications via satellite on the same basis as they charge for the existing transmission facilities. Thus, the true benefits of satellite communications would not be passed on to the users until the existing long-distance transmission systems had been fully amortized, if even then. It would seem much more desirable to have a separate satellite communications agency to operate a Canadian communications system. Whether this agency is government or investor-owned is not the concern of

this brief. It is, however, our firm opinion that Bell Canada or the other common carriers should not be permitted to exert control or given prime responsibility for the construction and operation of such a satellite system. At present, Bell Canada does not possess an impressive competence in the field of satellite communications, nor does its subsidiary Northern Electric. There are already several groups in Canada who have extensive experience in the field of satellite communications, in particular the RCA Victor Company, National Research Council, the Canadian Overseas Telecommunication Corporation, the Department of Transport and the Defence Research Board. Bell Canada would obviously require considerable time to bring its competence and skills to adequate levels, should it be given the authority to operate a satellite communication system.

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It would appear to be much more beneficial to Canada, and to the communication users in particular, to permit Bell Canada and the other common carriers to buy communication channels from the authority operating the satellite communication system, rather than give them the authority to run it themselves. In this way, the dramatic capabilities and benefits of satellite communications would very quickly be passed on to Canadians in general, and to the communications users in particular.

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## SECTION VI

*Recommendations*

The preceding sections of this brief have discussed the existing deficiencies in the policies and methods of Bell Canada and its affiliated companies. In this section, we summarize what we believe to be the steps required to eliminate these deficiencies and provide Canada with an efficient, competitive, communications system and industry:

1. Delete Clause 7 from Bill C-104. Clause 7 redefines the Bell Canada powers to include all forms of telecommunications irrespective of their nature. This would permit Bell Canada to expand into the satellite communication field and would remove any restrictions over the type of equipment or facilities it employs in the provision of communication services.

We are not opposed to the elimination of restrictions on the type and form of equipment that Bell Canada may use. We do believe, however, that Bell Canada should be confined to the provision of terrestrial facilities for the transmission of voice data, video and other signals and should be restricted from owning, operating or controlling extra-terrestrial communication facilities such as satellite communication systems. In our judgment, Bell Canada has shown that it is not capable of exploiting its existing powers to provide efficient and functional communication systems of all kinds.

It has also not demonstrated any particular capability in the field of space communication systems. Therefore, it is our opinion that Bell Canada would over-extend itself and make unnecessary drains on Canada's technological resources in order to put itself in a position to provide such systems.

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2. Delete Clause 8 of Bill C-104. It is difficult to understand why Bell Canada believes it should be allowed to invest in and compete with companies in other industries, primarily in the electronics and electrical manufacturing field. At the moment, such companies are for the most part prohibited from competing with Northern Electric, the Bell Canada manufacturing subsidiary. Therefore, it would be unfair to permit Northern Electric to enter into those fields already occupied by other companies and compete with them on an advantageous basis, using resources derived from their monopoly market to finance ventures into competitive markets.

An additional effect of this clause would be to permit Bell Canada to gain control over the manufacturer of equipment in fields which are not strictly communications-oriented, but are sufficiently akin to communications to be a factor in the industry. For example, the manufacture of computer terminals and associated devices, and indeed, computers themselves could prove to be an area of interest to the telephone company.

A policy which permits Bell Canada to acquire a monopoly position in other areas, in addition to those it already occupies, is not one designed to be con-

ducive to continued growth in the technology-oriented industries in Canada.

Bell Canada is already one of Canada's largest corporations, and has reached this position without fully using the powers it already possesses. It would seem to be totally unnecessary and undesirable to grant it further additional powers. If anything, the opposite course would seem to be appropriate; i.e., reducing the scope of the activities in which Bell Canada may become involved, rather than increasing the scope of its activities.

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3. Amend Bill C-104 to include a clause requiring Bell Canada to establish standards governing the use of non-Bell equipment on both private and switched communications circuits. These standards will be subject to the approval of the Department of Transport and would enable competitive manufacturers to design and offer equipment for use on the telephone network. The Company should also be prohibited from using its powers to discriminate in any way against the users of suppliers of such equipment.

4. Amend the Railway Act to include a clause permitting competing communications companies to offer special communications services or facilities in competition with Bell Canada, or other common carriers, whenever it can be established that the existing common carrier services are inadequate. This would provide strengthened competition for Bell Canada in areas where such competition is beneficial to the communications users. Services in remote areas for industrial clients, long-distance special high-speed data circuits, etc., are some examples in which additional competition would be beneficial.

5. Amend Bill C-104 to include a clause prohibiting Bell Canada from filing inclusive tariffs for communications services. Such tariffs cover the provision of communication circuits, data sets and interface equipment along with computer or data terminal equipment. The purpose of this clause would be to prohibit Bell Canada from restricting the competitive offerings of companies unable to offer the total range of communications services which Bell Canada's

powers permit it to offer. Such a clause would also ensure that the highest level of competition is maintained in all aspects of communications services.

6. An independent Commission should be established to fully investigate the operational practices and policies of Bell Canada, and its manufacturing subsidiary, in order to determine whether Bell Canada is providing adequate standards of communications services to all sectors of the Canadian economy. The investigating Commission should concentrate on areas such as:

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- (a) Long-distance telephone rates.
- (b) Rates charged for private leased telephone circuits. (In the U.S. the cost of a leased, voice-grade telephone line is less than half the Canadian cost.)
- (c) The technical competence of Bell Canada and Northern Electric to respond to the needs of advanced communications systems.
- (d) The extent of the reliance on U.S. technology of both Bell Canada and Northern Electric.
- (e) The extent to which Bell Canada should be permitted to control the manufacture of its own equipment. It is not our suggestion that Bell Canada be forced to divest itself of Northern

Electric and other subsidiaries. An investigation should reveal the beneficial and detrimental aspects of the existing vertical monopoly created by the exclusive use of Northern Electric equipment by the Bell system.

The purpose of the above Commission would not be to conduct a "witch hunt" into the operations of the Bell Canada system. Its principal purpose would be to determine whether the Company is doing the job required of it by Canada, and whether a different form of organization and increased competition would be beneficial to the Canadian economy.

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7. It is our recommendation that the Department of Transport be given a mandate and sufficient funds to increase its technical staff to monitor and observe the operations of Bell Canada and the other Canadian common carriers. The Department of Transport seems to have done a commendable job with its existing staff and resources. In order to perform a proper regulatory role, it seems evident that the Department requires considerably increased funds and powers, in order to fulfill its responsibilities to the Canadian people.

November 30, 1967

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OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House.*



HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Acting Chairman:* Mr. H. PIT LESSARD

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

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TUESDAY, DECEMBER 5, 1967



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Respecting

★ Bill S-26, An Act respecting Trans-Canada Pipe Lines Limited. ★

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WITNESSES:

*Representing Trans-Canada Pipe Lines Limited:* Mr. James W. Kerr, Chairman; Mr. George Woods, Group Vice-President; Mr. John Clarry, Solicitor; Mr. J. Ross Tolmie, Q.C., Parliamentary Agent.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Chatwood,  
Mr. Deachman,  
Mr. Émard,

Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-Huron*),  
Mr. Leboe,  
Mr. Lind,  
Mr. Nugent,  
Mr. Olson,  
Mr. Orlikow,  
Mr. Pascoe,

Mr. Reid,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—(24).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

<sup>1</sup> Replaced Mr. McWilliam on December 4, 1967.

ORDER OF REFERENCE

MONDAY, December 4, 1967.

*Ordered*,—That the name of Mr. Olson be substituted for that of Mr. McWilliam on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

TUESDAY, December 5, 1967.

(14)

The Standing Committee on Transport and Communications met this day at 10.05 o'clock a.m., the Vice-Chairman, Mr. Lessard, presiding.

*Members present:* Mrs. Rideout, and Messrs. Allmand, Andras, Byrne, Cantelon, Chatwood, Deachman, Horner (*Acadia*), Howe (*Wellington-Huron*), Lessard, Lind, Olson, Pascoe, Reid, Rock, Saltsman, Southam—(17).

*Also present:* Mr. Groos, M.P.

*In attendance: Representing Trans-Canada Pipe Lines Limited:* Mr. James W. Kerr, Chairman; Mr. George Woods, Group Vice-President; Mr. John Clarry, Solicitor; Mr. J. Ross Tolmie, Q.C., Parliamentary Agent.

The Vice-Chairman called on Mr. Olson who thanked the Committee for its promptness in dealing with Bill S-26, An Act respecting Trans-Canada Pipe Lines Limited. He then introduced the Parliamentary Agent, Mr. J. Ross Tolmie, Q.C. Mr. Tolmie in turn called on the Chairman of Trans-Canada Pipe Lines Limited, Mr. James W. Kerr, to make an opening statement and to introduce the officials of his Company.

A map of Canada showing the Trans-Canada Pipe Lines and connecting systems was distributed to Members of the Committee.

After questioning the witnesses, Clauses 1, 2, 3, 4 and 5 were agreed to. The title and preamble were agreed to and the Vice-Chairman was instructed to report the Bill.

At 11.25 o'clock a.m., the Committee adjourned to the call of the Chair.

R. V. Virr,

*Clerk of the Committee.*





## EVIDENCE

*(Recorded by Electronic Apparatus)*

**Tuesday, December 5, 1967**

• (10:07 a.m.)

**The Vice-Chairman:** Mrs. Rideout and gentlemen, I see a quorum. We have for consideration this morning Bill S-26, an Act respecting Trans-Canada Pipe Lines Limited. The sponsor of the Bill is Mr. Olson, member of Parliament for Medicine Hat, and I would ask him to present the witnesses, this morning.

**Mr. Olson:** Mr. Chairman, Mrs. Rideout and gentlemen, first I would like to thank the Committee for providing an opportunity for study of Bill S-26 because I regard it as essential to Canada's resource and distribution development.

We have with us this morning Mr. James W. Kerr, President of Trans-Canada Pipe Lines, Mr. G. W. Woods, Group Vice-President in charge of financing, Mr. John Clarry, Solicitor, and Mr. J. Ross Tolmie, Q.C., their Parliamentary Agent. Would you gentlemen please come forward.

**The Vice-Chairman:** I do not believe we have a written brief this morning but Mr. Kerr will give us a short briefing on Trans-Canada Pipe Lines and then we will proceed with questioning.

**Mr. J. Ross Tolmie, Q.C. (Parliamentary Agent for Trans-Canada Pipe Lines Limited):** If I might again introduce our witnesses, now that they are seated, Mr. Chairman, Mrs. Rideout and gentlemen, on my right is Mr. James W. Kerr, the President of Trans-Canada Pipe Lines; next to him is George Woods, Group Vice-President in charge of finances of the Company; then on his right is Mr. John Clarry, corporate solicitor and partner in the Toronto Firm of McCarthy and McCarthy.

• (10:10 a.m.)

If it pleases you, Mr. Chairman, I would ask Mr. Kerr to outline in a preliminary statement exactly what is involved in this Bill and then any of the witnesses present

will be pleased to answer questions, depending of course on which sector of inquiry you wish to go into.

**Mr. James W. Kerr (Chairman and President Trans-Canada Pipe Lines Limited):** Mr. Chairman, Mrs. Rideout and gentlemen, it is indeed a privilege to be with you today to discuss this bill. I am very pleased also to have some of my associates with me.

I believe you know that the purpose of the Bill is to provide for an increase in the authorized capital of Trans-Canada Pipe Lines Limited and to make certain amendments to the provisions of Trans-Canada's Special Act.

Trans-Canada was incorporated by Special Act in 1951 and some changes in the authorized capital of the company were made by a further Special Act in 1954. Since then we have constructed, and now own and operate, a big-inch pipeline system extending more than 3,000 miles from the Alberta-Saskatchewan border to Montreal and on to the Quebec-Vermont border. I would like to refer to the map to describe our system. The natural gas is gathered for us in the province of Alberta by Alberta Gas Trunk Line and is shown on this map by a green line. Alberta Gas Trunk Line delivers the gas to Trans-Canada Pipe Lines' western gate at Burstall, Saskatchewan very close to the Alberta-Saskatchewan border. Then our systems starts on its way east. At the present time we have two 34-inch diameter pipe lines 586 miles east to Winnipeg. It then goes through northern Ontario in a 30-inch system 1,248 miles to Toronto—actually it is through Maple, a point just north of Toronto. A 20-inch system extends to the east to Niagara Falls, to the international border; another system extends 308 miles eastward to Montreal; and just recently we have extended the system to the Vermont border. We also have an extension southward from Winnipeg to Emerson, Manitoba on the international border to connect to the proposed Great Lakes Gas Transmission Company system south of Lake Su-

terior and Lake Huron. We also have a 12-inch diameter extension to serve Ottawa.

**Mr. Cantelon:** May I interject a question at this point?

**The Vice-Chairman:** Yes, Mr. Cantelon.

**Mr. Cantelon:** I note a short red line connecting to Unity; is that also your pipe line?

**Mr. Kerr:** Yes sir. I forgot to mention that. We have a 16-inch diameter pipe line from the Provost field in Alberta to Unity, Saskatchewan where the storage fields are located, and gas is pumped in there to serve Saskatchewan Power Corporation.

**Mr. Cantelon:** Thank you.

**Mr. Olson:** I believe, Mr. Kerr, that you have some smaller maps. Would you like to distribute them to the members of the Committee?

**Mr. Kerr:** We would be very pleased to have those maps distributed.

At intervals along the pipe line system from Burstall, Saskatchewan through to Montreal and the Vermont border, we now have a total of 46 compressor stations with a total capacity of more than 643,000 horsepower.

Trans-Canada is also a 50 per cent owner of Great Lakes Gas Commission Company which is constructing a 36-inch pipe line south of the Great Lakes from the Trans-Canada system at the international border at Emerson, Manitoba to Sault Ste. Marie and on through Michigan to St. Clair, Michigan on the international border near Sarnia. Trans-Canada buys natural gas from a great many producers in many fields in Alberta and some in Saskatchewan. The natural gas that we buy from producers in Alberta is gathered for us as I mentioned earlier, by Alberta Gas Trunk Line and they transmit it to our western gate at Burstall, Saskatchewan on the Alberta-Saskatchewan border. Our gas is then transmitted through the Trans-Canada system and delivered to 14 customer companies at more than 120 sales points along the line. These 14 customers are natural gas distribution companies which in turn serve the residential, the commercial and the industrial market. We also export gas to the United States at three points on the system; at Emerson, Manitoba, at Cornwall, Ontario, and at the Vermont border.

Our first full year of operation was 1959 and during that year sales were 74 billion cubic feet. Our total sales during the last fiscal year, 1966, were 401 billion cubic feet—over 1 billion cubic feet per day on the average—and our peak day in 1966 was 1.356 billion cubic feet.

I believe you know what our operations and the development of our facilities are under the jurisdiction of the National Energy Board. We operate under the terms of the National Energy Board Act and Regulations, and this Act requires that we obtain authorization from the National Energy Board prior to the commencement of construction of any facilities.

I think it is important to emphasize, and I am always very pleased to be able to say, that Trans-Canada is truly a Canadian company. Its management and its shareholders are basically Canadian. Over 87 per cent of the company's 35,000 common stock shareholders are residents of Canada and they own over 94 per cent of the common shares of the Company. Residents of Canada also own over 99 per cent of the preferred shares. Our two largest single shareholders are Canadian companies; Canadian Pacific Investments Limited and Home Oil Company Limited. Our senior management team is basically Canadian and nine of our top ten officers were born and educated in Canada.

Consistent with the Canadian character of our company, it is our policy to purchase Canadian-made materials and services wherever possible, and in developing and carrying out this policy, there are many examples where we have encouraged development of new sources of supply and of manufacture in Canada.

Our company has placed millions and millions of dollars of orders with Canadian manufacturers since the commencement of construction in 1956. During the early stages of development, the large majority of suppliers of material and apparatus to the natural gas transmission industry had their manufacturing plants located outside Canada. However, Trans-Canada was able to make its purchasing policy of "buy Canadian" clearly known, and we encouraged the establishment of Canadian manufacturing operations to supply our Canadian industry. Today, as a result of this approach to purchasing, with



only a few exceptions, all equipment required by the natural gas transmission sector of the natural gas industry is manufactured in Canada. We are, frankly, proud to be able to say that the Canadian content of our purchases is now well in excess of 80 per cent. We are also gratified that we have been directly responsible for major secondary industrial development in various locations throughout Canada.

One of the principal reasons for Trans-Canada's request for the passage of this Bill is the future growth which we anticipate in Canada because of the growing requirements for natural gas in the eastern Canadian energy market. In the last few years the industry as a whole has averaged a compound growth of approximately 10 per cent in the domestic energy market each year, and it is quite realistic to expect similar annual growth during the next few years. We estimate that by 1985, natural gas will supply 25 per cent of Canada's total energy markets. To put this perspective, in 1966, the last year that statistics are available, the natural gas industry supplied about 18 per cent of Canada's total energy requirements. Twenty years ago natural gas supplied just three per cent of a very much smaller energy market. Research and development and new applications for gas will contribute to much greater acceptance of this form of energy in future years.

• (10:20 a.m.)

As I mentioned earlier, the last amendment to our Special Act was in 1954, 13 years ago, and there has been no change in its authorized capital since that time. Since 1954, the company has constructed its initial pipe line system and has completed very substantial construction programs each year, including looping of the pipe line, installation of additional compressor horsepower, and the construction of new compressor stations along the pipe line. When I refer to "looping", I mean the construction of another pipe line parallel or adjacent to the initial pipe line.

In the past eight years the number of miles of pipe line, including loop line, has increased from 2,290 miles to 3,106 miles, and the number of compressor stations spotted along the system has been increased from 10 to 46. During this eight-year period, the total horsepower installed has increased from 75,500 to 643,000.

In view of this substantial increase in facilities, and therefore in capital investment, and because of the requirements for future expansion that we can see ahead, I trust you will appreciate that the authorized capital initially required for the company is no longer adequate to meet our needs.

In the Bill which is before you, we are requesting an increase in the company's capital stock from 10 million common shares to 25 million common shares, and from one million preferred shares to five million preferred shares.

Of the 10 million common shares authorized at the present time, less than 539,000 are available in the company's treasury for issue and all of the one million preferred shares at present authorized have been issued or are outstanding. So that the company may be able to carry out the expansion of its facilities indicated by its present commitments, and by future market requirements, we consider it essential that its authorized capital be increased to enable it to secure additional equity capital when required.

In addition to the increase of capital, the Bill also provides for some amendments to the provisions of the Special Act dealing with preferred shares, with the subdivision and consolidation of shares and with payment of stock dividends. There is also an extension of the description of the communication facilities used in our gas transmission system to include electronic communications. Some of these amendments involve technical and legal points which my associates and I will be glad to discuss with you further in answer to any questions which you may wish to raise.

Thank you very much, Mr. Chairman, for the opportunity to make these introductory remarks.

**The Vice-Chairman:** Mr. Saltzman?

**Mr. Saltzman:** Thank you, Mr. Chairman. If you do not mind I would like to ask you some questions, not much pertaining to your present involvement in gas transmission but as you might be involved in oil transmission. I am wondering whether you transport oil as well as gas?

**Mr. Kerr:** No sir, we do not.

**Mr. Saltzman:** How big is your line from Toronto to Montreal? Is that the same size as the rest of the lines?



**Mr. Kerr:** No sir, it is smaller. It is 20 inches to Montreal except the few miles of loop line, as shown on this map from Toronto east to a point near Markham, which is a 24-inch looping.

**Mr. Saltsman:** Are you familiar with a feasibility study that was made by the Canadian National Railways, I think it was in 1962, regarding the movement of oil from the west to the eastern markets? In that study they analysed the cost based on a number of different ways of moving the gas and I believe that one of the things they studied was the feasibility of running an oil line along the Trans-Canada route along your rights of way and what it would cost under those circumstances. I believe it was cheaper if the oil line from the West to the Montreal market followed the Trans-Canada pattern. Are you familiar with that?

**Mr. Kerr:** No, sir. I am not directly familiar with this 1962 study you mention.

**Mr. Saltsman:** You did not participate in that study?

**Mr. Kerr:** No, sir.

**Mr. Saltsman:** Have you given any consideration to the possibility of moving oil as well as gas?

**Mr. Kerr:** No, we have not. That is not in our corporate scope.

**Mr. Saltsman:** Is this because you are limited by the terms of your corporate scope, or is this because you do not believe that it ties in with the work you are doing now?

**Mr. Kerr:** We believe basically our business is the long distance haulage or transmission of natural gas and that is our role and purpose corporately. We have no aspirations to go into other forms of energy.

**Mr. Saltsman:** Do you see any possibility of moving oil more economically by having a proposed oil line from the west of Montreal follow your rights of way? Do you see any savings if this were contemplated?

**Mr. Kerr:** Actually, our right of way which is 66 feet wide pretty well all across the country is not filled up with pipe line. Do not misinterpret what I say there, but to build any other line adjacent to the existing Trans-Canada system would involve the acquisition

of new right of way pretty well all along the line. I cannot give you an accurate answer to that but a general answer is that almost all along the Trans-Canada right of way new lands would have to be acquired to build another pipe line. There might be some saving but it would not be terribly significant.

**Mr. Saltsman:** You do not feel that by twinning gas and oil lines along the existing routes there would be any savings in the building of another line?

**Mr. Kerr:** A very high percentage of the total construction cost—the cost of laying a pipe line—is in the actual laying rather than in the right of way. As I say, while there might be some saving it would not be too significant.

**Mr. Saltsman:** What about operational savings? Is there any operational saving possible by having two of them looped together?

**Mr. Kerr:** The methods of operating oil pipe line compressor stations are not dissimilar to methods used in operating gas compressor stations and, therefore, there might be some elimination of duplicate personnel. But the equipment is different and the capital cost would be just as great as if we were building a new oil pipe line in some new area.

**Mr. Saltsman:** The government is discussing the possibility of the establishment of the Canada Development Corporation to invest in Canadian industry. Would your company have any objection to a separate corporation participating in the development of a pipe line in your particular case; providing some of the financing and some of the management participation that might come from that?

**The Vice-Chairman:** Mr. Saltsman, would you try to talk a little louder, please? It is very hard to hear you.

**Mr. Saltsman:** Sorry. I will just repeat the question. The government is considering, we understand, the establishment of the Canada Development Corporation whose purpose would be to invest in Canadian industry and assist in both the financing and the management of Canadian industry.

**Mr. Rock:** Did they establish...

**Mr. Saltsman:** I am saying that it is talking about this. If such a corporation were

established, do you see any objection to the Canada Development Corporation participating with you in the development of a gas transmission line?

**Mr. Kerr:** It is difficult at this stage, sir, to answer that question because we would not be completely familiar with the terms of such financial arrangements with the government. Off hand I would not think it would be necessary, on the basis that so far Trans-Canada has been able to acquire financing from private sources but this, however, does give me an opportunity to call on Mr. George Woods, Group Vice-President in charge of financial affairs of our Company. Mr. Woods might have something to add on this question.

**Mr. George Woods (Group Vice-President, Trans-Canada Pipe Lines Limited):** As Mr. Kerr has stated, to date we have had massive capital requirements and we have been able to raise them. If we found we could not raise them we might have to approach the Canada Development Corporation or some such agency but until we had difficulties I think it would be just as desirable to try to raise these funds in the private sector.

**Mr. Byrne:** You had some trouble in 1956.

**Mr. Woods:** Well, I am talking of recent years.

**Mr. Saltzman:** You are a common carrier. Is that correct?

**Mr. Kerr:** No, sir.

**Mr. Saltzman:** You are not a common carrier? You carry only for those companies associated with you in the discovery and development of gas production?

**Mr. Kerr:** Sir, we buy the natural gas at the wellhead from producers in Alberta and Saskatchewan. We buy at the wellhead and we own the gas at that stage. Then Alberta Gas Trunk Line, as I mentioned in my introductory remarks, gathers that gas and carries it to our western gate at Burstall. We own the gas at that time, of course, and we carry it through our pipeline and deliver it at 120 sales points along the line to the fourteen distribution company customers that I referred to. They buy it from us. In other words in this area, Ottawa, it is served by Ottawa Gas, which is a subsidiary of Con-

sumers' Gas Company; and Consumers' Gas buys it from Trans-Canada's system at several points along the line.

• (10:30 a.m.)

**Mr. Allmand:** Do you process at all?

**Mr. Kerr:** We do not process at the wellhead. The producers do the processing and extract the products from the gas stream at that point and deliver it to Trans-Canada on a rather tight specification. However, in conjunction with Pacific Petroleum Ltd. we participate in an extraction plant at Empress, Alberta, very near Burstall, Saskatchewan, where further products are taken out.

**Mr. Allmand:** Among your purposes you ask for permission to process. Do you contemplate doing it on a wider basis in the future than you are today?

**Mr. Kerr:** That was in the original Act, sir, and there is no change there.

**Mr. Saltzman:** This puts you in a powerful position, does it not, in the sense that no one can really bring gas into production unless they reach an agreement with you for the movement of that gas? In other words, from what I can see, this is the only way to move gas out of the area, and before anyone could bring gas into production they would have to be assured that you would carry, or would buy from them? Is this the case?

**Mr. Kerr:** I do not think that is quite right, sir, no. We are very large purchasers of gas in western Canada because of the tremendous energy market we have here in eastern Canada served by our pipeline; but we are not alone in buying gas in Western Canadian fields. Westcoast Transmission Company Limited is buying in northeastern B.C. and Alberta Gas Trunk Line Co. Ltd. and Alberta Southern Limited are buying for the California market. Therefore, there is certainly competition in negotiating with producers for the volumes of natural gas that we need to serve our markets.

**Mr. Saltzman:** But in the Trans-Canada run, from the western to eastern markets, yours is the only pipe line that moves the gas that distance, is it not?

**Mr. Kerr:** Yes.



**Mr. Saltzman:** Anyone wanting access to this market would have to negotiate a sale with you for the movement of their gas, or for the purchase of their gas?

**Mr. Kerr:** Yes. If anyone wanted to sell gas in eastern Canada they would approach Trans-Canada and work out a purchase contract from Trans-Canada. All these contracts, of course, are ultimately under the jurisdiction of the National Energy Board.

**Mr. Saltzman:** I see. The National Energy Board has some say in the negotiation of these contracts?

**Mr. Kerr:** They have regulation over the rates and the tariffs that are charged.

**Mr. Saltzman:** I gather you do not anticipate any difficulty in financing your operation, or your extensions? Is this correct?

**Mr. Kerr:** Well, it has often been said that in financing you never know until you actually have the contract made with the senior institutions from which you borrow the money. However, at the present time we do not expect any serious difficulties. We have not had any for the last few years.

**Mr. Saltzman:** Are you in a position to tell this Committee what your financing plans are, where you intend to get your money and at what rates you intend to try and get it?

**Mr. Kerr:** This is another opportunity for Mr. Woods to participate, if he would, please.

**Mr. Saltzman:** Mr. Woods?

**Mr. Woods:** Our plans are to sell bonds next year at the lowest rate at which we can negotiate them; and we have a plan to sell \$30 million worth of what we call "junior securities" sometime probably during 1968. We have not determined exactly what form these junior securities will take, and certainly one of the reasons for our asking for the passage of this bill is to give us all the options possible. The financial markets develop in the months ahead and I do not think anybody at this moment can forecast how they will develop. We then have all the options possible in raising that \$30 million.

**Mr. Saltzman:** To what extent will you be able to market your bonds in Canada as against marketing them in the United States?

**Mr. Woods:** The bonds will be marketed mainly in the United States. We have sold

our bonds mainly in the United States. Canadian institutions, to the extent that they want to buy these bonds, will have the maximum opportunity to do so.

Fortunately, we have been able to borrow our debt money in the United States and have, over the years, raised all our equity, or common shareholder money, in Canada. This is something we hope to be able to continue.

**Mr. Saltzman:** You may or may not wish to deal with this, but a rumour has been going around to the effect that the price of your bonds in the United States will depend to a considerable extent on what Canada does about the recommendations of the Carter Royal Commission on Taxation.

**The Vice-Chairman:** I believe, Mr. Saltzman, we should stick to the Bill. I think you are going a little too far afield.

**Mr. Saltzman:** I thought they might wish to have an opportunity to reply to that, but I bow to your wishes, Mr. Chairman. Thank you.

**The Vice-Chairman:** Mr. Andras?

**Mr. Andras:** Thank you, Mr. Chairman.

Mr. Kerr, you mentioned that one of the prime purposes in seeking authorization for additional capital was to expand in Canada, and you also made reference to eastern markets. This leads one to assume—and judging from previous publicity it is the correct assumption—that you will then be talking in terms of a pipe line in Canada. Could you be more specific about the form the expansion will take if this Bill is authorized?

**Mr. Kerr:** Yes, sir; I will be pleased to talk about that.

You will recall that on October 4, 1966, Trans-Canada worked out with the government of Canada an agreement which provides that at all times 50 per cent of our total throughput east of Winnipeg to Eastern Canada will be transmitted through Northern Ontario. This agreement also requires that by 1976 the volume through Northern Ontario will increase to 60 per cent, and that within a reasonable time thereafter the volume will increase to 65 per cent. To comply with this agreement we are required to commence construction of a loop through Northern Ontario



by 1970. It may not be generally known that Trans-Canada commenced that loop this year, 1967. It is relatively small, but it is a start on that loop line; and we have been in service now for five or six weeks in a new small loop line—19½ miles total, in four small sections—shown on this map east of Winnipeg, three of which are in Ontario.

The rate of future looping will depend on market development, and we are studying this almost continuously. The markets change, and these are very complex studies involving teams of engineers and financial people continuously looking at market growth, market changes and the requirements of the market. At the present time it is our plan at least to loop the pipe line east to a point near Nipigon. As the market develops studies will be made on which route we follow from there.

It is possible that we may be able to develop a new route along the north shore of Lake Superior, in almost a straight line to a point near Chapleau, south to a point near Elliot Lake, eastward to Sudbury, on to a point near Sundridge, on to Ottawa and down to Montreal. This, again, depends on the development of the markets. We do know at this stage...

**Mr. Andras:** Just on that point, Mr. Kerr, as I understand it, then, you would loop from the Manitoba border to Nipigon, some of which has already been started?

**Mr. Kerr:** Yes, sir.

**Mr. Andras:** And you would make a choice at that time, based on market growth, and so on, whether to punch a brand new line through or gradually to loop the existing line.

**Mr. Kerr:** Yes; but we have to look continuously at the development of the market and at the geographic areas where the market is developed.

As we see it at the present time, there will be some work continuing from the 1967 program in 1968, and certainly in 1969, and this will reach a bit of a peak in construction in 1970. It appears now that we will be building about 170 miles of 36-inch pipe line through northern Ontario at a total cost of approximately \$60 million in the calendar year 1970. The program will continue after that, again depending on the development of the markets.

• (10:40 a.m.)

**Mr. Andras:** Is that tied in with the section to Nipigon?

**Mr. Kerr:** Yes, sir; that is all west of Nipigon.

**Mr. Andras:** And that is a 36-inch line.

**Mr. Kerr:** Yes; the 19½ miles that we put in this year is 36-inch and that sets the pattern.

**Mr. Andras:** The other existing line is a 30-inch, is it not?

**Mr. Kerr:** That is right, sir.

**Mr. Andras:** This Bill, which is related to your requirement for additional capital, is, in turn also related to the necessity of your meeting your obligations under the agreement with the Government vis-à-vis the Great Lakes Gas Transmission Company program. Is that not correct?

**Mr. Kerr:** Yes, sir.

**Mr. Andras:** Therefore, there is a time factor involved here. In other words, you are going to need money to do this additional construction—this expansion—in Canada and that is what this Bill primarily seeks—the money to finance that expansion?

**Mr. Kerr:** Yes, sir, the money involved here is entirely for use in Canada.

**Mr. Andras:** So there is a time pressure on the whole thing, the beginning of which is to raise the funds to do this.

**Mr. Kerr:** There really is; yes.

**Mr. Andras:** Now, just one more question, following what Mr. Saltsman was saying. The National Energy Board is a regulatory body which sets rates for your transmission process. Does it also govern your rate of return as to profit return on investment?

**Mr. Kerr:** Yes, the two matters are tied together. They are related.

**Mr. Andras:** But is the regulation such that it simply sets your prices, in other words, or does it set a return on your investment?

**Mr. Kerr:** The Act reads that the National Energy Board has jurisdiction over tariffs

and tolls; and in controlling rates, it really controls the rate of return.

**Mr. Andras:** It controls it in that way.

**Mr. Kerr:** Yes.

**Mr. Andras:** Thank you.

**Mr. Horner (Acadia):** Mr. Andras dealt with quite a bit of the subject matter I was going to ask about. Could you give us an idea of your intended expansion in the United States? Is the 24 inch line going up to Sault Ste. Marie from Emerson now built?

**Mr. Kerr:** No, sir. That is what we call phase two, really a part of phase two, of Great Lakes Gas Transmission Company. If I may just briefly describe the Great Lakes project, phase one involves a 36-inch pipe line from Farwell, Michigan. That is in central Michigan just south of Bay City on that map, 150 miles eastward to St. Clair, Michigan, on the international border near Sarnia. That is now complete. Gas is running through phase one of the Great Lakes project. Phase two starts at Emerson on the international border south of Winnipeg on the map, comes along south of Duluth, along the south shore of Lake Superior to a point south of Sault Ste. Marie, Ontario. Now this line up to Sault Ste. Marie, Ontario, that you referred to earlier, sir, will be built in Calendar, 1968. That is part of phase two. And the remainder of phase two is this crossing of the Mackinac Straights which, incidentally, is a very difficult and important engineering feat, and on down to connect up with the western end of phase one again at Farwell, Michigan.

**Mr. Horner (Acadia):** And part of the purpose of this Bill is to raise money to complete that, too?

**Mr. Kerr:** No, sir, the Great Lakes financing stands on its own feet in the United States. The requirements of this Bill before you are for Canadian expansion only.

**Mr. Horner (Acadia):** You did state, though, that you own 50 per cent of the Great Lakes Gas Transmission Company.

**Mr. Kerr:** Yes, sir.

**Mr. Horner (Acadia):** But this Bill is entirely divorced...

**Mr. Kerr:** It will have nothing to do with Great Lakes financing.

**Mr. Horner (Acadia):** But you did say in your opening talk that there was going to be some change in the dividend arrangements with regard to—in lieu of money. Can you explain that a little more fully?

**Mr. Kerr:** I think this might be an opportunity to ask Mr. Clarry, our Solicitor, to comment on that point.

**Mr. John Clarry (Solicitor, Trans-Canada Pipe Lines Limited):** Mr. Chairman, Mrs. Rideout and gentlemen, there is a clause in the Bill, clause 5, which gives the company the power to pay a stock dividend in lieu of a cash dividend. This is identical to a section in the Canada Corporations Act which applies to all normal corporations incorporated under that Act and which is merely to provide the same opportunity to the company that other corporations have.

**Mr. Horner (Acadia):** Does this put you in a better position financially to meet the income tax and this sort of thing?

**Mr. Clarry:** Frankly, sir, at the present time I do not think it does. I do not think that stock dividends in a company of this kind, from a tax point of view, are attractive now in Canada.

**Mr. Horner (Acadia):** Why do you say that?

**Mr. Clarry:** Because the dividend would normally involve a taxable receipt to the shareholder who gets the stock dividend without any cash to pay the tax on.

**Mr. Horner (Acadia):** I see. And the dividends would be assessed at market value?

**Mr. Clarry:** There are various ways that a company might pay a stock dividend. It might declare a dividend of, say on share, a common share, for every ten shares held, or something of that nature, in which case they are capitalizing part of their surplus instead of paying it out as a cash dividend.

**Mr. Horner (Acadia):** Is this the way in which the increased capital shares and preferred shares may be disposed of? In other words, you are asking for an increase from 10 million to 15 million of common shares and from one million to four million of preferred shares.



**Mr. Clarry:** Perhaps it should be the other way around; that the company would not be able to pay a stock dividend, certainly of any size, unless it had the additional common shares authorized. But I am sure that is not the prime purpose for requesting the increase in authorized common share capital.

**Mr. Horner (Acadia):** What is the prime purpose? To help raise money or what?

**Mr. Clarry:** I think, Mr. Horner, this is to finance future expansion.

**Mr. Horner (Acadia):** I would imagine the preferred shares are the ones that have voting control of the company. Am I right?

**Mr. Clarry:** No sir, it is just the opposite.

**Mr. Horner (Acadia):** All right, we have cleared that up. Will this increase in common shares and preferred shares be sold on the Canadian market? You mentioned the bonds would be sold...

**Mr. Clarry:** Perhaps I should leave that for Mr. Kerr or Mr. Woods to deal with.

**Mr. Kerr:** Certainly it will be our purpose to try to get them disposed of and sold on the Canadian market and we will give the existing shareholders all possible preference as we have in the past. As I mentioned in the introductory remarks, 87 per cent of our 35,000 shareholders are residents of Canada and they own 94 per cent of the common stock and 99 per cent of the preferred shares are held in Canada, so I would think the chances of their ending up in Canada are good.

**Mr. Horner (Acadia):** You mentioned that there were two large shareholders, one being Canadian Pacific Investments Limited. Has this company been in from the beginning?

**Mr. Kerr:** I am sorry, sir, I heard only one part of that question.

**Mr. Horner (Acadia):** You mentioned that there were two major shareholders and one was Canadian Investments. How long has this company been a major shareholder in Trans-Canada?

**Mr. Kerr:** First of all it is Canadian Pacific Investments solely owned by CPR and CPR came into Trans-Canada approximately in 1964. I am not too sure of the date but it is about that time.

**The Vice-Chairman:** Mr. Saltzman.

**Mr. Saltzman:** Thank you, Mr. Chairman. I would like to ask the witness if they get some of their gas purchases from Producers Pipelines Ltd. in southeastern Saskatchewan?

**The Vice-Chairman:** Mr. Saltzman, would you take the map off? Would you please repeat your question?

**Mr. Saltzman:** Yes. Do you purchase some of your gas supplies from Producers Pipelines Ltd. in southeastern Saskatchewan?

**Mr. Kerr:** No, sir, we do not.

**Mr. Saltzman:** I notice on the map here that there is a dotted outline as if there was...

**Mr. Kerr:** Saskatchewan Power Corp. have gas at Medicine Hat. They have a small inch line from Medicine Hat through to a point on our main line near Success in Saskatchewan. We buy from the Saskatchewan Power Corp. at Success.

• (10:50 a.m.)

**Mr. Saltzman:** So actually, indirectly, you are getting some of the gas from southeastern Saskatchewan?

**Mr. Kerr:** Yes, sir. However the bulk of it comes from Medicine Hat and frankly I am not sure if they are picking some up along the way in southwest Saskatchewan; they may be.

**Mr. Saltzman:** Could you give me any idea of the percentage of the supply of gas out of your total transmission of gas that you would get from that area?

**Mr. Kerr:** Very roughly I would say 3 to 5 per cent.

**Mr. Saltzman:** Three to five per cent. Would there be any differential in the cost of purchasing it there compared with the Alberta field? How would the figures compare that way?

**Mr. Kerr:** When delivered to the pipe line it all nets out to about the same cost.

**Mr. Saltzman:** I was interested in clause 3, subclause (a) of the Bill where you ask permission to develop and expand further communication systems, that is, microwave, radio, television and other electronic com-



munication systems. Have you encountered any difficulty of any kind in acquiring or negotiating for these communication systems?

**Mr. Kerr:** No, these communication systems are entirely for use along the pipe line to control the compressor stations from despatch headquarters in Toronto. We have done a lot of pioneering and I think have almost led the field in North America in remote automatic operation of our compressor stations. They are not completely unattended but about 28 of our 46 compressor stations are completely remote automatic controlled by despatchers in Toronto and we also make very complete use of computer equipment to get optimum operation of the system.

To do all this we must have reliable, dependable communications. They are used internally in the system only.

To get back to your question, sir, we do not have any difficulty in negotiating for the use of these facilities. We have a mix of different types of communications. The reason this modification on communications is requested in the Bill is simply to let us keep pace with modern methods of communication

**Mr. Saltzman:** The reason I asked...

**Mr. Kerr:** Some of the methods that we can use now in accordance with the existing Act are not quite as modern as we would like and we want to keep up to date.

**Mr. Saltzman:** The reason I asked the question is that this Committee has heard testimony recently that certain companies have had problems in negotiating for communications systems and equipment and so on and I thought I would inquire as to whether or not you had encountered any.

I was very pleased to hear, and I am sure the members of the Committee were too, that you have made it a policy of purchasing in Canada up to 80 per cent, I think you said, of all your equipment and purchasable goods required for your company. Where do you get the other 20 per cent?

**Mr. Kerr:** There is some specialized equipment required in very small volume which really does not warrant tooling in Canada and some of that comes from the United States and some from the United Kingdom.

For example, we use Rolls-Royce turbines in our modern compressor stations, an industrial adaptation of the aeronautical Rolls-Royce Avon turbine. There are some components for that which still come from the United Kingdom.

**Mr. Saltzman:** That is all, thank you, Mr. Chairman.

**The Vice-Chairman:** Mr. Rock.

**Mr. Rock:** Thank you, Mr. Chairman. To what extent, if any, do the corporations that use gas participate in the ownership of Trans-Canada Pipe Lines?

**Mr. Kerr:** There are two producers in Alberta that participate. Home Oil Company Limited is one of our large shareholders. We buy some gas from Home Oil and British American Oil Company have a relatively small participation in Trans-Canada and we buy large volume of gas from B.A. in Alberta.

**Mr. Rock:** The individuals who own shares, let us say the owners of companies that produce gas, do they invest privately in your pipe line?

**Mr. Kerr:** I cannot think of any major ownership, any significant ownership by individuals that are associated with producers in Alberta.

**Mr. Rock:** On page three of your Bill you have this addition about telecommunications and from the way it reads I believe you would also be able to go into the telecommunication field unless you would add after the last line "for the purpose of its undertaking". You do so for aerodromes and aircraft but you do not do so for the telecommunications and I would like to know whether or not you have any objection if after the word "facilities" were to be added the words "for the purpose of its undertaking"?

**Mr. Kerr:** No sir, we would have no objection. We are in the gas transmission business and certainly not in communications business.

**Mr. Horner (Acadia):** We are here today, but say in five or ten years this could be misinterpreted and you could also go into the telecommunications field the way it is written—at least that is the way I see it. For

this reason I feel that the following words "for the purpose of its undertaking" should be added to the last paragraph.

**Mr. Kerr:** We would agree with that, sir. We want that to be clarified because it is not our intention to get into the communications field at all. These communications equipments are for use internally in the pipe line to control the flow of gas.

**Mr. Rock:** Yes, I do not doubt it for one minute but the way it is written it could be interpreted as such in the future.

**Mr. Reid:** I would like to know if there are any other material changes in clause 3 on page 3 other than the subject Mr. Rock has discussed?

**Mr. Kerr:** I do not believe there are, sir, but I would like Mr. Clarry to confirm.

**Mr. Clarry:** No sir, there are not. There is just that one point, the addition of the words "radio, microwave, television or other electronic" in, I think, two places.

**Mr. Reid:** Dealing with the increase in capital, you will be increasing it by 150 per cent on the common share basis and by 400 per cent on the preferred basis. How will you go about issuing this capital?

**Mr. Kerr:** I will ask Mr. Woods to handle that question, please.

**Mr. Woods:** We have no immediate plans to make any issues of this that are in any final stages. We have tremendous amounts of capital to raise in the period ahead and undoubtedly we will have to sell some common shares and some preferred shares. And, as I did say, I do know we have a plan to do some form of junior securities in the next year.

**Mr. Reid:** How long do you anticipate this increase in your capital structure will last?

**Mr. Woods:** That depends on two real unknowns which make it almost impossible to put a date on it. I do not think anyone knows what the trend in public utility financing is going to be in the years ahead. How much of Mr. Carter's report eventually becomes the law of the land will have a tremendous bearing on financing patterns and also we continuously seem to find that

our estimates of growth are understated and our energy market in Canada is just growing beyond what anybody ever contemplated. I do not think we can put a date on how long this will last, sir.

**Mr. Reid:** I just want to know because it is very useful for us to have you come back and visit us as often as possible. The other question has to do with the looping of the northern pipe line. As I recall it, at the last hearing of the National Energy Board, a proposal was put forth by the Ontario Minnesota Pulp and Paper Company that the new loop should go west of Lake of the Woods, through the State of Minnesota, down through the Rainy River Valley and from there on to the Lakehead. Am I to assume from what Mr. Kerr said earlier that this plan has been scrapped or the suggestion has not been accepted?

**Mr. Kerr:** There are many feasibility studies made for serving gas to that area looping the existing pipe line or, shall I say, twinning the existing line and a variety of routes to the south. At the present time it appears that the most probable method of serving the area is to build a lateral off the present route of the Trans-Canada system. On a feasibility basis that appears to be best.

● (11:00 a.m.)

**Mr. Reid:** How much of the 19½ miles of looping of the northern line have been done east of the Ontario-Manitoba border?

**Mr. Kerr:** It is about 15 miles, sir.

**Mr. Reid:** Fifteen miles. Do you know approximately where that construction has taken place?

**Mr. Kerr:** East and west of Dryden, Ontario, and just a few miles east of the Manitoba-Ontario border.

**Mr. Reid:** To what use are these sections being put now?

**Mr. Kerr:** To bring additional volumes of gas eastward as far as Atikokan for Steep Rock Iron Mines and other smaller markets in that area. We also added horsepower west of Atikokan, but east of the Manitoba-Ontario border, for the same purpose.

**Mr. Reid:** It is anticipated that by 1970 you will be building the rest of the twinning line to Nipigon? Is that what you said?



**Mr. Kerr:** I said, sir, that in 1968 and also in 1969 there would be substantial preparator work done getting ready for additional construction. The construction would peak in 1970 when we would build approximately 170 miles of 36-inch line in the area east of the Manitoba-Ontario border.

Now, you do not build 170 miles all in one place. You build up and downstream from compressor stations and gradually build up, as required, based on market growth. It is difficult to define the area where that 170 miles would be, but it would be in the general Lakehead area.

**Mr. Reid:** This will, then, provide a twin line from Winnipeg, say, up to Nipigon by that period?

**Mr. Kerr:** I think it would be entirely looped from Winnipeg to the Lakehead by 1970, or a large percentage of it would be.

**Mr. Reid:** Then you do anticipate meeting your commitment to the government to twin the whole of the northern section by 1976? That is, perhaps, unjust. If I may rephrase my question. Will you be carrying 65 per cent of your capacity to Eastern Ontario through your Canadian lines by 1976?

**Mr. Kerr:** With respect to the commitment to loop, the commitment was that we were to start to loop in 1970. We already started this in 1967. Therefore, we will certainly have a substantial looping in 1970, as I have just described. To answer your question, we certainly do plan to meet this commitment of moving 60 per cent through ports east of Winnipeg to Northern Ontario by 1976 with a future target of 65 per cent.

**M. Reid:** Thank you.

**Mr. Groos:** I would like to ask a couple of questions on the way the increase in shares is to be distributed. I think you said that about 90 per cent of the equity stock is held in Canada or by Canadian companies and Canadians?

**Mr. Kerr:** Just to clarify that, sir, we have about 35,000 shareholders. Specifically, at the end of June, 1967, we had a total of 35,990 shareholders of which 87 per cent are residents of Canada. That 87 per cent owns 94 per cent of the common stock.

**Mr. Groos:** That is a very satisfactory state of affairs. Recently we had before us The Bell Telephone Company who are in a similar position where 90 per cent of their shares are held by Canadians. They achieved this high percentage of Canadian ownership by the distribution of rights to present shareholders, resident only in Canada. Recently in Canada there was an issue of shares for Canadian Pacific Investments Limited who, I understand, are large shareholders in your company, but the sale of the shares of Canadian Pacific Investments Limited was in no way related to the shareholders of the Canadian Pacific Railway Company. In this Bill you are asking to increase the number of common shares in your company from 10 million...

**Mr. Kerr:** By 15 million.

**Mr. Groos:** ... to 25 million shares. It would be quite easy to upset the present happy balance of Canadian ownership if that 15 million shares were to find their way into non-Canadian hands. I am wondering whether you can tell us how you propose to distribute these 15 million shares?

**Mr. Kerr:** Certainly it would be our plan and policy to do everything possible to maintain the high Canadian ownership content we have in Trans-Canada, and with so many Canadian shareholders we think it is probable that we would be able to maintain a pretty high participation in our equity ownership in Canada.

**Mr. Groos:** I think you said that you were able to finance some of your capital requirements by the issuance of bonds in the United States. I am most interested in seeing that this high Canadian ownership is maintained.

**Mr. Kerr:** So are we.

**Mr. Groos:** If you were to tie in the sale of common shares with the sale of the bonds in the United States, this would quickly upset that relationship. Do you have anything like that in mind?

**Mr. Kerr:** No, we do not have that in mind. That would not be any policy of Trans-Canada. I think we are in a fortunate position, frankly, of being able to do the senior bond financing in the United States and the equity or ownership financing in Canada.

**Mr. Groos:** I take it that you intend to do everything you possibly can to maintain this



high Canadian equity ownership percentage by issuing these 15 million shares, as far as possible, in Canada?

**Mr. Kerr:** Yes, sir, that is our policy and plan.

**Mr. Groos:** I think that was my main question, Mr. Chairman.

**Mr. Pascoe:** Mr. Chairman, I just have a couple of questions for information purposes. Mr. Kerr said these 46 compressor stations are pretty well automated. Is there not much employment at these compressor stations?

**Mr. Kerr:** A natural gas transmission system, such as ours, is really a small labour content operation. We have a total of just over 1,000 employees in the company and in reply to this question I am very pleased to be able to say that when remote automatic control, or automation, if you want to call it that, was introduced in Trans-Canada we were expanding very, very rapidly as we expect to do in the future, and we were actually able to upgrade the jobs of many of the station operators. The station operators were trained by the company; they were sent away on courses and in-company courses were established, as well. They were upgraded to technicians and as a result have better jobs. There has been no displacement of personnel, I am pleased to say.

**Mr. Pascoe:** Actually, you now have about 1,000 employees?

**Mr. Kerr:** The last count I can recall, I think, was 1,083.

**Mr. Pascoe:** Would the proposed expansion add considerably to that number, or would it not?

**Mr. Kerr:** Yes, we will grow in the number of people, but it will not be the substantial method of employing personnel.

**Mr. Pascoe:** I have just one more question and I have asked this question of a lot of different companies. You said you purchase Canadian made material to the extent of 80 per cent. You also said that some came from the United States and the United Kingdom. Under the Kennedy Round and the devaluation of the pound, if it were possible for the others to come in a little cheaper, would it be the company's policy to take the lowest bid?

**Mr. Kerr:** For the type of materials and equipment we buy, it is doubtful whether there would be any offshore or United States competition that would be competitive, but if it were close, I would say we would give the break to the Canadian company as a matter of policy.

**Mr. Pascoe:** Thank you.

**Mr. Byrne:** Mr. Chairman, as the only member here today, as far as I can determine by looking around the table, who was on this Committee when the Trans-Canada Pipe Lines was chartered, and subsequently a member of Parliament during the famous or infamous pipe line debate, I want to congratulate your company—your Canadian company—for the outstanding progress and the contribution you have made to the Canadian development in those 16 years and, perhaps, even less, since you were experiencing some financing difficulties in 1956 when you were getting off the ground. I think it would be appropriate also to recall that great Canadian, the Rt. Hon. C. D. Howe, who had such great faith, both in Canada and in your company.

• (11:10 a.m.)

I have not a very important question, but I am wondering at the moment where the supply of natural gas is being obtained for the first phase; that is, the American company that is providing gas has already constructed a pipe line, I understand, from near Sarnia to Sault Ste. Marie.

**Mr. Kerr:** On a very short-term basis, sir, the initial volumes of gas coming through phase one of Great Lakes Gas Transmission Company are from storage fields at Austin, Michigan, over to a point near Sarnia, and actually into storage fields in Ontario and Dawn Township. This gas is United States gas coming out of these storage fields at Austin, but on an interchange basis later on we will be feeding Western Canadian gas at Emerson into this system when Great Lakes is completed to replace that. This is a short-term import of United States gas.

**Mr. Byrne:** When the pipe line from Emerson to Sault Ste. Marie is completed then the flow will be the other way.

**Mr. Kerr:** No, sir, it will still be west to east flow, but we will be replacing the gas

that we take out of storage with Western Canadian gas. Right now we are exporting at Emerson to Midwestern Gas Transmission Company, which is another system, another company shown by the green line on the small map in front of you.

**Mr. Byrne:** The small map that we have and the larger map which you have displayed provide only the present picture. You have not projected any of your proposals for construction.

**Mr. Kerr:** No, sir.

**Mr. Byrne:** I cannot recall definitely the reason for building your pipe line on the extreme northern route rather than along the north shore at the time the charter was granted. I know that there was some political interest in serving those communities. At the same time, was there not the very compelling economic reason of cost of construction through that very rocky area of northern Ontario?

**Mr. Kerr:** I arrived in Trans-Canada just about nine years ago and after the initial plans were made. I arrived at the beginning of operations, actually. From information I have read but not from direct knowledge, it is my understanding that the line was routed further north than the north shore of Lake Superior in order to get this form of energy into the pulp and paper and mining areas there to help develop that part of the Province of Ontario.

**Mr. Byrne:** Would you consider the immediate north shore route more expensive construction, that is, covering the pipe line?

**Mr. Kerr:** Any pipe lining through the Pre-Cambrian Shield is pretty rough and expensive. You are up to around \$260,000 to \$280,000 a mile. It depends on terrain, it depends on geographic location; on balance there is not an awful lot of difference between a route closer to the north shore of Lake Superior and one a little further north, as long as you are in rock country.

**Mr. Byrne:** Have any studies been made by the pipe line companies of the submarine type of lines? For instance, across the northern part of Lake Superior, if the pipes were submerged, would it be more expensive or less?

**Mr. Kerr:** There have been many studies done in this area, sir, using plastic pipes of small diameter. However, in laying pipes, especially when the water depths are great and when the bottom of the water crossing is uneven—full of hills and valleys underwater—there are some real problems in construction. One of the most difficult construction feats that pipe liners will face will be going across the Mackinac Straits during the construction of Great Lakes this coming summer. There you are in very deep water with uneven terrain. There will be a lot of trenching and blasting underwater to set those pipes and we are going to cross there with two twenty-four-inch pipes. That is about five miles across and is about as far as the engineers would like to go at this stage.

**Mr. Byrne:** Just one other question. You may not be in position to answer. I have noted the home construction in the City of Ottawa, over the past several years and I have yet to find natural gas being employed in these new subdivisions. It is almost always oil, already provided. Is there any particular reason for that? Is oil still cheaper?

**Mr. Kerr:** It varies a great deal in urban areas. On an over-all basis, about 55 per cent of the total energy market we serve is residential, about 15 per cent industrial, and the remainder what we call commercial: restaurants, motels and hotels, and so on. You will find many urban areas where natural gas is served to nine out of ten homes. This applies particularly in the newer developed areas.

**The Vice-Chairman:** Mr. Lind.

**Mr. Lind:** Following Mr. Kerr's comments, I have a question. Do you only throughput through your pipe lines?

**The Vice-Chairman:** Will you speak into your microphone, please?

**Mr. Lind:** On the throughput of gas, is it only sweet gas that you transport?

**Mr. Kerr:** We buy in so-called sweet and sour fields to a specification. The producers have to process the gas, take the various products and sulphur out of the gas before it is acceptable to the pipe line and before it can be delivered to Trunk Line and our western gate. I think the answer to your question is that we buy in all types of fields.



**Mr. Lind:** But you remove the sulphur usually at the start, before you transport it.

**Mr. Kerr:** The producers do.

**Mr. Lind:** When you are selling your gas, on your distribution system, is it only to companies that have franchises in the area that you are allowed to sell, or do you sell directly to some companies?

**Mr. Kerr:** These fourteen customers that we have are natural gas distribution companies; Saskatchewan Power, Inter-City in Brandon, Greater Winnipeg in Winnipeg, Twin City at the Lakehead, Consumers, Union Gas, Northern and Central and so on. They, in turn, have franchises for the municipal areas they serve. We do not serve industry direct and we do not serve anybody else except these distribution companies.

**Mr. Lind:** Thank you. Has your company any difficulties in dealing with property owners when you get down into southern or western Ontario?

**Mr. Kerr:** We have not had any significant difficulties. I think the answer to that is no. I know of no incidents that have caused us any problems. Maybe they are solved by our right-of-way agents along the way, but I do not think there have been any serious problems.

**Mr. Lind:** Do you endeavour...

**Mr. Kerr:** If I could just continue, we have just finished laying fourteen miles from the International Border over to Dawn Township in that area you are speaking of and have had no problems.

**Mr. Lind:** No problems at all. Did you have to expropriate, or could you buy voluntarily?

**Mr. Kerr:** We usually buy the land without expropriation.

**Mr. Lind:** Then you are probably familiar with the farmers' problem of sub-drainage and tile drainage systems. Have you been able to handle all these problems with the majority of the landowners in a satisfactory manner?

**Mr. Kerr:** As far as I know we have, sir. I did not actually attend that hearing that was held in London. We had representatives of the company there, but we have not experienced that type of problem. We have

also gone a long way, I think, in considering ways and means of replacing top soil as we go across farms. We have had good consulting advice from the University of Manitoba, for example, on how to do this and I think we have had a lot of success in the replacement of top soil in all the rural areas through which we pass.

**Mr. Lind:** Of course, that was not your company that was involved; it was Interprovincial Pipe Line, was it not? The oil pipe line?

• (11:20 a.m.)

**Mr. Kerr:** Yes.

**Mr. Lind:** The oil pipe line. Thank you very much.

**Mr. Howe (Wellington-Huron):** In clause 3 (a), there is reference to the construction of pipe lines for transporting liquid hydrocarbons. At present do you have any pipe lines of your own that are carrying liquid hydrocarbons?

**Mr. Kerr:** No, sir, we do not.

**Mr. Howe (Wellington-Huron):** Do you propose to build any in the near future?

**Mr. Kerr:** We have no immediate plans to do so.

**Mr. Howe (Wellington-Huron):** I had one other question with regard to the new Transport Commission that has been set up in Canada. Will you come under the pipe line regulations of the Canadian Transport Commission as well as under the National Energy Board?

**Mr. Kerr:** No, sir. We will be regulated by the National Energy Board in accordance with the National Energy Board Act. The new Transport Commission will control only solids pipe lines.

**Mr. Howe (Wellington-Huron):** In other words, the hydrocarbons pipe line that you are proposing to build and which the passage of this Bill will authorize you to do would have to come under their jurisdiction?

**Mr. Kerr:** No, sir. The liquid hydrocarbons are not really in the class of solids pipe lines.

**Mr. Howe (Wellington-Huron):** I see. Thank you very much.

**The Vice-Chairman:** Are there any further questions before we go on with the Bill clause by clause?



Clauses 1 and 2 agreed to.

**The Vice-Chairman:** Shall clause 3 carry?

**Mr. Rock:** I would like to move...Do you want it written down?

**The Vice-Chairman:** Do you have a seconder, Mr. Rock?

**Mr. Rock:** Yes.

**The Vice-Chairman:** Who is the seconder?

**Mr. Rock:** Mr. Groos is the seconder.

**Mr. Olson:** Mr. Chairman, I wonder if I might suggest to Mr. Rock that the company have indicated that they have no objections to accepting the amendment that he has suggested, that is, to add under the telecommunications or the communications clause, which is clause 3, that it be only for their own use within the company. If the amendment is ready, would it be agreeable to Mr. Rock if I gave an undertaking to move this amendment in Committee of the Whole when the Bill is reported to the House so that we have the legal terminology and so on correct?

**Mr. Rock:** I have no objection to that at all, except that we have already done this once, or twice, I think, when similar Bills were before our Committee in the past week.

**Mr. Olson:** There is one other matter that I have in mind but I am not quite sure of this. I believe that if this Bill goes back without amendment it will go back on the top of the list; but that if it is amended in the Committee it may go down to the bottom of the list. As there is some urgency in getting it through, I will give an undertaking that this amendment will be moved.

**Mr. Rock:** I am agreeable, then.

Clauses 3, 4 and 5 agreed to.

Preamble agreed to.

Title agreed to.

**The Vice-Chairman:** Shall I report the Bill?

**Some hon. Members:** Agreed.

**The Vice-Chairman:** I want to thank the Committee and you gentlemen also.

Gentlemen, our next meeting will be on Thursday, December 7.

**An hon. Member:** What will we be discussing, Mr. Chairman?

**The Vice-Chairman:** The Combines Branch will be witnesses on Bill C-104.

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OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House.*



HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

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THURSDAY, DECEMBER 7, 1967

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Respecting

LIBRARY 104, An Act respecting the Bell Telephone Company  
of Canada.

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WITNESSES:

*From the Registrar General Department:* Mr. D. H. W. Henry, Q.C.,  
Director of Investigation and Research, Combines Investigation Act;  
Mr. R. M. Davidson, Director, Merger and Monopoly Section; Mr.  
W. F. Lindsay, Combines Officer.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Acting Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Chatwood,  
Mr. Deachman,

Mr. Émard,  
Mr. Groos,  
Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-Huron*),  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nowlan,

Mr. Orlikow,  
Mr. Pascoe,  
Mr. Reid,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—(24).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

ORDER OF REFERENCE

WEDNESDAY, December 6, 1967.

*Ordered*,—That the names of Messrs. Nowlan, McWilliam and Groos be substituted for those of Messrs. Nugent, Olson and Lind on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

THURSDAY, December 7, 1967.

(15)

The Standing Committee on Transport and Communications met this day at 10.15 o'clock a.m., the Acting Chairman, Mr. Lessard, presiding.

*Members present:* Mrs. Rideout and Messrs. Bell (*Saint John-Albert*), Byrne, Chatwood, Émard, Deachman, Groos, Howe (*Wellington-Huron*), Lessard, McWilliam, Nowlan, Orlikow, Pascoe, Reid, Rock, Southam—(16).

*In attendance:* From the Registrar General Department: Mr. D. H. W. Henry, Q.C., Director of Investigation and Research, Combines Investigation Act; Mr. R. M. Davidson, Director, Merger and Monopoly Section; Mr. W. F. Lindsay, Combines Officer.

The Committee resumed its study of Bill C-104, An Act respecting The Bell Telephone Company.

The Acting Chairman introduced the officials of the Registrar General Department and invited Mr. Henry to summarize his brief.

The Acting Chairman interrupted momentarily to ask the Committee if it was their wish to permit televising portions of the proceedings. The Committee unanimously agreed.

On motion of Mr. Reid, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*,—That the brief submitted by the Director of Investigation and Research, Combines Investigation Act be printed as an appendix to this day's Minutes of Proceedings and Evidence (See note below).

The Members questioned the witnesses on the implications of their brief. At 12.15 o'clock p.m., the Committee adjourned until after Orders of the Day when the questioning of the witnesses would continue.

### AFTERNOON SITTING

(16)

The Standing Committee on Transport and Communications met this day at 3.25 o'clock p.m., the Acting Chairman, Mr. Lessard, presiding.

*Members present:* Mrs. Rideout, and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Chatwood, Émard, Deachman, Groos, Howe (*Wellington-Huron*), Lessard, McWilliam, Orlikow, Pascoe, Reid, Rock, Sherman, Southam—(19).

*In attendance:* (Same as morning sitting.)

The Acting Chairman introduced the witnesses to the Committee again and invited Mr. Deachman to resume the questioning.

After lengthy questioning the Committee adjourned at 6.05 o'clock p.m., to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

NOTE: Because Mr. Henry's statement included the complete text of the brief, it is not attached as an appendix to these proceedings.



## EVIDENCE

(Recorded by Electronic Apparatus)

Thursday 7 December 1967

• (10:14 a.m.)

**The Vice-Chairman:** Mrs. Rideout and gentlemen, we have a quorum.

**Mr. Deachman:** On a point of order, Mr. Chairman, I note that the press table is without simultaneous interpretation service, which means that unless the members of the press happen to be bilingual they will be unable to understand all that is said. I would ask that this service be extended to the press table in future.

**The Vice-Chairman:** I will ask the Clerk of the Committee to take note of that, Mr. Deachman. If we do sit this afternoon we will endeavour to provide them with this service.

Our three witnesses this morning are Mr. D. H. W. Henry, Q.C., Director of Investigation and Research, Mr. R. M. Davidson, in charge of the Merger and Monopoly Section, and Mr. W. F. Lindsay, Combines Officer.

I believe Mr. Henry has a statement.

**Mr. D. H. W. Henry, Q.C. (Director of Investigation and Research, Registrar General Department):** Thank you, Mr. Chairman.

I would like to express my regret at the outset that I have been unable to furnish the text of the statement to you until this morning. I am sure we all have problems from time to time and because of duplicating difficulties I was unable to supply the text of my statement before now. Perhaps the best way to rectify the situation would be to take you through most of the detail.

Mr. Chairman, I would like to remind the Committee that I appear here at the request of the Committee in my capacity, under the Combines Investigation Act, as Director of Investigation and Research, which is an office created by Parliament. My comments are made in this capacity and are not made on behalf of the government of Canada.

I thought it might be helpful if I made several preliminary points at the outset before getting into the substance of what I

know you are interested in because it might provide a helpful background. As Director under the Combines Investigation Act my main concern is with what I might describe as competition policy, so I should like to refer briefly to the anti-combines legislation which reflects Parliament's concept of present competition policy in Canada.

This legislation, as I say in the Paper here, was enacted sometime ago. Indeed, it stems from 1889, so it has a quality of being ancient. It was formerly in the Criminal Code of Canada but now it is found entirely in the Combines Investigation Act. Without going into too much detail about it I just wish to say that the courts have held—and there is a reference to the citation in the Paper—that the purpose of this legislation is to protect the public interest in free competition. So we are talking about competition policy against a statutory background of Parliament's intention to support the principle of free competition.

The Combines Investigation Act is a statute which has its roots in an economic policy. In enacting it Parliament has sought to show its desire to continue and support an economy based primarily upon competitive market forces. To put the matter very simply, the Combines Investigation Act is designed to encourage the continuation of the private enterprise system by discouraging restraints upon the economic forces which make a market economy work. Of course the restraints that are particularly in mind are ones that are imposed by businesses themselves. This philosophy was explained in the House of Commons and I give a citation here, which is an extract from a statement made by the President of the Privy Council in May 1966, just to give you the flavour of this philosophy.

The Combines Investigation Act is based on the principle that under normal circumstances competition provides the greatest spur to efficiency and to the best allocation of economic resources in the

private sector of the economy. This is sometimes forgotten in the more immediate concern about possible exploitation of consumers or about the inequitable treatment of some economic units by others. Where competition is effective, efficiency is rewarded and inefficiency is penalized. In the long run, efficient corporations grow and inefficient ones decline. Scarce resources are therefore channelled into the hands of those who use them best.

• (10:20 a.m.)

Mr. Chairman, what Parliament has contemplated is that business and commerce shall be fundamentally regulated by the forces of competition—that is, by the marketplace—which can be expected, if permitted to operate, to bring about the efficient allocation of the factors of production by providing the necessary stimuli and deterrents to their commitment. This must almost by definition appear to be put at variance with the intention of Parliament, the regulation of particular industries by businessmen themselves and indeed by Government regulation or intervention by State agencies.

It is, of course, unrealistic to say that the policy as laid down by Parliament has operated in its pure form. It is obvious that exceptions have been made, by statute, in cases where a greater or lesser degree of regulation has been provided in particular industries. These include the fields of transportation, power, telephone and other public utilities, and the production and marketing of agricultural products, all of which are subject to limitations on the operation of competitive forces with the necessary safeguards to the public being placed in the hands of boards, commissions and Crown corporations. But in the areas where such administrative controls are not imposed upon enterprise by statute, Parliament, as I see it, intends competition to regulate the market. This is an important point as a background to what I will say a little later.

The telecommunications industry is an example of an industry which is in part subject to regulation by a government agency, in part subject to the Combines Investigation Act, and in part subject to neither of these forms of control.

The influence of competition in that part of the industry that supplies manufactured products to Bell Telephone is of great significance both to Bell Telephone and to the subscribers to its telephone service. The efficiency of Bell Telephone's operation, particularly as reflected in the cost of equipment that it purchases, has an important bearing on the rates that will eventually become payable by the telephone subscribers. In a freely competitive market Bell Telephone can expect to get the best products at the best price. Moreover, it should have access to a reasonable choice of products and be assured that it will receive the products of the most up-to-date research and technological development. Ideally, it is therefore in the interests of Bell Telephone subscribers that the supporting manufacturing industry be vigorously competitive, having an incentive to develop efficiency and economies of scale and to improve the product line; and it is also important that there be freedom of entry to this market on the part of efficient and forward-looking newcomers. To the extent that this happens, Bell Telephone and the telephone subscribers should both reap a benefit.

I would like to briefly explain what that is about. The Combines Investigation Act presently places restraints on three types of activity. I will not elaborate, but the first branch deals with combines conspiracies. Secondly, it deals with mergers or monopolies that may operate to the detriment of the public. Thirdly, it deals with what we call unfair trade practices, which includes price discrimination, predatory pricing, certain forms of promotional allowances, misrepresentation of the regular price, which we call misleading price advertising, and resale price maintenance.

I know that some of these matters have been discussed quite recently in the House.

For the purposes of our discussion today, we are primarily concerned with the merger and monopoly aspects of the Act and the related philosophy.

I have included in the paper, and perhaps I need not take time to read it, the definition of a merger and of a monopoly under the Combines Investigation Act. The text is there if you care to look at it. I merely wish to say that there is a popular impression—and perhaps this results from some misunderstanding—that for a business to exist as a



monopoly in the economic sense, that is, legally as a single firm monopoly, and sometimes it is a natural monopoly, is somehow unlawful. This is not necessarily so. The offence connected with a monopoly that has been created by lawful means arises from the abuse of the monopoly position. When you think about a monopoly in terms of anti-combines legislation it is necessary to remember this principle. It is not the existence of the monopoly so much as the abuse of the monopoly that is significant from the standpoint of the law. As Parliament has put it, the abuse consists in operating the monopoly to the detriment or against the interest of the public and this, I think you will recognize, creates some difficulty in determining what the actual tests should be. The law thus places on the monopolist a somewhat greater responsibility towards others who have business dealings with him than would be the case if he were one of a number of competitors. This is the approach we take in dealing with monopoly situations and in administering the Combines Investigation Act.

Another important point by way of background in that if you look at the provisions of the Combines Investigation Act you will see that apart from one or two specific exceptions which are mentioned in the Act, services and service industries as such are not subject to the prohibitions in the Act; what the Act encompasses is various restraints of trade in relation to articles or commodities that may be the subject of trade or commerce. Therefore, the Bell Telephone organization—and when I say “organization” I am speaking about Bell and any of its subsidiaries—is not subject to the Combines Investigation Act in relation to the services that it provides in the field of telecommunications. It is, however, subject to the Act to the extent that it manufactures and sells or otherwise supplies goods which, of course, Northern Electric also does.

Parliament has seen fit to allow telephone service to be provided through the private enterprise system. I think an important point to remember is that Parliament has created this organization. Under its Special Act and amendments thereto Bell Telephone operates as a common carrier of communications and is therefore a form which, as you know, creates and regulates the Bell Telephone to some extent, of public utility. Under the Special Act telephone service must ordinarily be

provided to applicants for it where the Company has facilities to do so.

There are some exceptions to that which are not relevant to what I am saying. Recognizing the public utility character of Bell Telephone's enterprise, Parliament has also provided for a limited amount of regulation by giving the Board of Transport Commissioners (now the Canadian Transport Commission) the function of regulating the rates to be charged for telephone service and I emphasize it is for telephone service we are speaking about. By the Special Act the Company is required to obtain the approval of the Board of Transport Commissioners (now the Canadian Transport Commission) of the amount, terms and conditions of issue, sale or other disposition of its capital stock.

The Company also has the power to manufacture telephones and telephone equipment and to sell such goods by virtue of the Act of 1882.

We therefore have a private enterprise company empowered to provide a telephone service (and by the 1948 Act to provide services and facilities for the transmission of intelligence, sound, television pictures, writing or signals) in respect of which it is subject to a limited regulation for the benefit of its subscribers by the Canadian Transport Commission, but in respect of which services it is not subject to the Combines Investigation Act; and which also is empowered to engage in the manufacture and sale of certain goods in respect of which it is not subject to regulation by the Canadian Transport Commission but is subject to the Combines Investigation Act and is to be regulated by the forces of the market.

The submissions of Industrial Wire and Cable Company Limited to this Committee, Mr. Chairman, have called in question the adequacy of the supervision exercised by the Board of Transport Commissioners and, perhaps by inference, of the scope and application of the Combines Investigation Act. With respect to the role of the Board, which is now the Commission, of course, while I know that some objection has been taken to the scope and methods of their inquiry into the structure, costs and earnings of various parts of the Bell Telephone organization (concerning which I am, of course, not competent to speak on behalf of the Commission) I suggest that the Commission's difficulty lies in the



fact that it is acting under authority that was conferred by Parliament at the turn of the century in relation to technological matters which have now developed far beyond their original state. The Commission, for example, as I understand it, would not have the authority, should it consider it important to do so, to bring about a restructuring of the Bell Telephone organization or to prevent the acquisition by Bell Telephone of other enterprises which may lawfully be part of its structure under the Special Act. It may be that what is required in this respect is that Parliament should confer on the Commission wider authority to regulate the activities of the Bell Telephone organization and that Parliament should provide guide-lines as to how such regulation should be carried out, and that may be the case. As matters stand at present, the Commission must rely in the main on its statutory authority to ensure that telephone tolls

shall be just and reasonable and shall always, under substantially similar circumstances and conditions with respect to all traffic of the same description carried over the same route, be charged equally to all persons at the same rate.

That is the Railway Act, section 381(1). Rate making is an exceedingly complex matter and I suggest it is unrealistic to expect the regulating authority whoever it is either to act in a managerial capacity with respect to Bell Telephone's operations or to bring about any change in Bell Telephone's business decisions or its structure by the sole device of exerting pressure on the rates to the subscribers, which is what they have to do now; this is virtually the only device open to them to exercise their authority.

• (10:30 a.m.)

**The Vice-Chairman:** Mr. Henry, could I intervene just for one minute?

Gentlemen, I would like to have a motion to print this brief as an appendix to our Minutes.

**Mr. Reid:** I so move.

**Mr. Bell (Saint John-Albert):** I second the motion.

Motion agreed to.

**The Vice-Chairman:** At the same time, this morning Mr. Fisher asked permission to come here and take a few television shots today. I would like to have the comments of the Committee on whether we would allow Mr. Fish-

er to come in. Is it the wish of the Committee?

**Some hon. Members:** Agreed.

**The Vice-Chairman:** Thank you. You may carry on, Mr. Henry.

**Mr. Henry:** Mr. Chairman, so far as the Combines Investigation Act is concerned, the important area of the services provided by Bell Telephone do not come within its scope, as I have, I think, mentioned. In addition, there are some services provided by Bell Telephone that do not come within the jurisdiction of the Canadian Transport Commission.

Now, in this context I think there are three developments which I should inform you about, or remind you about. The first one is that the former Minister of Justice and the Registrar General of Canada have informed the House of Commons that a study is being made of the implications of bringing service industries within the scope of the Combines Investigation Act. This study is well advanced and its results will be communicated to ministers in the first instance. In other words, it is a study which is being prepared by officials for ministers, and not available at the moment to the general public; nor is it quite completed.

The second one is, that the Economic Council of Canada, as ministers have announced, has been requested by the government, in the light of the government's long-term economic objectives, to study and advise regarding, *inter alia*, combines, mergers, monopolies and restraint of trade. It is my understanding that this work is now well in hand.

The third point I am going to tell you about, Mr. Chairman, is quite new. An inquiry is at present in progress under the Combines Investigation Act relating to the manufacture, production, distribution, purchase, supply and sale of communication systems, communication equipment and related products. As members of the Committee are aware, it has been the general policy of the Director that is, myself, and of successive ministers, having in mind the provisions of the statute which require inquiries to be conducted in private, not to disclose whether a particular inquiry involving a particular industry or particular firms is in progress

until a report is published or the existence of the inquiry is otherwise made public, as for example, may occur if proceedings develop in the courts while the inquiry is going on. This particular inquiry, however, directly concerns the relationship between Bell Telephone and Northern Electric, and as such has a direct bearing on the subject matter of Bill C-104 now before the House of Commons and this Committee. In these circumstances it appears to me that the paramount public interest is that the House of Commons and this Committee should be aware that the inquiry has been undertaken.

The inquiry is directed, not to the increasing concentration in Canada in the communications field by Bell Telephone's recent acquisitions of other telephone companies as such, but to the implications of such concentration for the industry that manufactures and supplies the communication equipment that I have mentioned, having in mind that Bell Telephone's market power as a monopolistic buyer is increasing.

Mr. Chairman, it may be that the Committee, in the light of the foregoing knowledge, may wish to consider deferring a decision, without making any final judgment in the matter, to recommend that any additional powers of acquisition or investment, other than perhaps research, be conferred for the present in order to enable the results of these various studies and inquiries to be known and a mature judgment formed on the basis thereof.

It appears to me that the broad issue will be the extent to which the Bell Telephone organization, including its subsidiaries, should be subjected to the authority of a regulatory agency and the extent to which activities of the organization should continue to be regulated by the forces of the market.

It will be apparent to the Committee that it would be unwise, if not improper, for me to attempt to form any conclusions about matters which are at present the subject of an inquiry under the Combines Investigation Act. Any comments that I make, therefore, must be tentative only and are based on what I regard as only preliminary facts. The true facts, the relevant facts, must of course be established in the inquiry and it would be very dangerous to attempt to form conclusions until all the facts are known to me. I should add that the inquiry was formally

commenced in November 1966—a year ago—and can be regarded as only in its preliminary stages.

**Mr. Bell (Saint John-Albert):** It is quite a while...

**Mr. Henry:** Yes. I do not like to make forecasts. Mr. Bell knows considerable about our operation and that it is very difficult to bring a combines inquiry to a successful conclusion, particularly if it is a complicated one and this will be a difficult inquiry involving difficult issues. I would not like to make a prediction, but I would hope that our work—apart from any work that might have to be done by the Restrictive Trade Practices Commission, if we refer the matter to it—might be completed within two years.

Mr. Chairman, I should like to turn now, perhaps, to some of the more particular aspects of Bill C-104. I have set out on page 13 the main purposes of the Bill which this Committee knows about anyway, so I will not bother to take you through that. I should like to say that I have tried to describe what I see as the issues raised, mainly from the standpoint of what I can contribute here, to be the following:

(1) Whether Bell Telephone, a public utility having a virtual monopoly of the telephone field east of the Manitoba border, should be permitted in its discretion to further *extend its monopoly power* into commercial fields in which it is not subject to regulation by the Canadian Transport Commission.

(2) Whether Bell Telephone should be permitted in its discretion to make further acquisitions outside the regulated field—regulated field being that of telephones—which will *increase the difficulty of effective regulation* in the area of its business which is subject to the jurisdiction of the Canadian Transport Commission.

(3) Whether Bell Telephone should be permitted in its discretion to increase its share capital, including the issue of preferred shares, without first obtaining the approval of the Canadian Transport Commission.

(4) Whether Bell Telephone should be empowered, by statute, to engage in the business of supplying telecommunication services of all kinds or whether this power should be limited by excluding some services.



• (10:40 a.m.)

From the standpoint of competition policy, which is my particular approach to it, I suggest those are the four main points to be considered.

Now first, the extension of monopoly power. The situation that has given me concern in administering the Combines Investigation Act and which has caused me to commence the inquiry that I have mentioned, is the tendency to extend Bell Telephone's monopoly in the regulated field and its activity into the non-regulated field of the industry, particularly the manufacturing of telecommunication equipment. The following is preliminary information about the situation which the inquiry is designed to verify, or to correct or amplify and must not be regarded as constituting a premature judgment of the facts or other implication. The establishment of the true facts and analysis of their implications is the purpose of the inquiry. Moreover, I intend to use the evidence and submissions before this Committee to assist in the inquiry.

Bell Telephone is the largest non-financial company in Canada with total assets in excess of \$3 billion. Northern Electric, which is listed by *Fortune* magazine among the 200 largest industrial companies in the world outside the United States and reported publicly as being the largest manufacturer of telecommunication equipment in Canada, is a wholly-owned subsidiary, and the main supply arm of Bell Telephone.

Bell Telephone is protected from competition in the regulated area of its business, that is, the provision of telephone services, not only by its great strength but also by the necessity of any newcomer applying to Parliament for special legislation to permit it to enter the same territory. Moreover, Bell Telephone has been, in recent years, substantially extending its operation so that it owns or controls all major telephone services east of Manitoba.

I would like to add a caveat, because it is only proper that I should do so, that as far as its ownership of Maritime Telegraph and Telephone Company Limited is concerned, I recognize that by virtue of legislation of the province Bell does not have full voting rights with respects to its shares, and in anything that I say about its virtual monopoly or its

strength in this area I would like you to know that I am bearing it in mind and, of course, so should the Committee.

Until 1961 Bell Telephone confined its operations mainly to the provinces of Ontario and Quebec in which it owns the most important telephone systems. Subsequently, it has acquired in addition to numerous small telephone companies, all or a majority of the voting shares of the following companies: I list them as

Avalon Telephone Company Limited, which owns and operates the principal telephone and communication system in the Province of Newfoundland (1962);

Northern Telephone Limited which operates in an area which extends from Chicoutimi in northwestern Quebec through northern Ontario to the Manitoba border (1966);

The New Brunswick Telephone Company Limited which operates the principal telephone system in the Province of New Brunswick (1966);

Maritime Telegraph and Telephone Company Limited which operates the principal telephone system in the Province of Nova Scotia and through its subsidiary, The Island Telephone Company Limited, the major telephone system in the Province of Prince Edward Island (1966);

La Tuque Telephone Company which services 6,000 telephones in the St. Maurice River Valley area and owns a community antenna T.V. distribution system (1967).

The concern of the Nova Scotia government in Bell Telephone's acquisition of a majority of the voting shares of Maritime Telegraph and Telephone Company Limited is reflected in legislation enacted by the Nova Scotia Legislature in September 1966, limiting the voting rights of the shares of the company. The enacted legislation limits a person, group or company owning more than 1,000 votes at any meeting of the Company. The Company has in excess of 3 million shares outstanding. One major purpose of this legislation appears to have been to prevent Bell Telephone from requiring Maritime Telegraph and Telephone to cease purchasing its requirements from a number of manufac-



turing companies and to divert them to Northern Electric. Now, I have put in a prepared statement that was given by the Premier of Nova Scotia to illustrate what their concern was and I have included this to show you why I have some concern about this particular matter.

The Government of Nova Scotia disapproves of the attempt being made by the Bell Telephone Co. of Canada to gain control of the Maritime Telegraph and Telephone Co. Ltd. . .

This disapproval was made clear to the Bell people before they made their offer to the shareholders of Maritime Telegraph and Telephone Co. Ltd. I made it very clear that the Legislature of Nova Scotia might very well compel the Bell Telephone Co. to relinquish any shares it acquires in the Maritime Telegraph and Telephone Co. Ltd.

No reason has been given as to why it would be in the interest of Nova Scotia for the Bell company to acquire control of the Maritime company. On the contrary, it is clearly not in the interest of Nova Scotia for the Bell company to acquire such control.

The Maritime Telegraph and Telephone Co. Ltd. has been granted privileges in order to enable it to provide the best possible telephone service in Nova Scotia. It is important that the Maritime Telegraph and Telephone Co. Ltd. be free to acquire telephone equipment that is best suited to our needs and will give the best service. The Maritime Telegraph and Telephone Co. Ltd. should be free to buy telephone equipment from any supplier.

Clearly, therefore, the Maritime Telegraph and Telephone Co. Ltd. should not be controlled by a company which manufactures telephone equipment, either directly or through a subsidiary. The Bell Telephone Co. of Canada controls Northern Electric Co. Ltd., which sells telephone equipment. If the Bell company were to acquire control of the Maritime company, the Maritime company would not long be free to exercise any independence of decision in acquiring telephone equipment.

The enacted legislation would appear to deprive Bell Telephone of control of Mari-

time Telegraph and Telephone, but it is not clear whether it will prevent Bell Telephone from influencing the purchasing policies of Maritime Telegraph and Telephone. In the past Maritime Telegraph and Telephone has found it advantageous to buy from a much wider range of manufacturing companies than does Bell Telephone and of course what will have to emerge in my inquiry is just what the factual situation is with respect to just what I have said.

Of the four remaining major telephone systems in Canada in which Bell Telephone does not have an interest, namely, Manitoba Telephone Systems, Saskatchewan Government System, Alberta Government Telephone System, and British Columbia Telephone Company Limited, only the last is associated with an equipment manufacturer through common ownership, that is, Automatic Electric of Canada Limited and is non-government owned. The three government-owned communication systems have also chosen in the past to buy from a wider range of manufacturing companies than does Bell Telephone.

And here is rather an important point. Where it prefers to deal solely with Northern Electric as its supplier Bell Telephone forecloses the market to competitors of Northern Electric whether or not they are equally or more efficient. For example, competitors of Northern Electric know that whatever price they bid to Bell Telephone, Northern Electric will be given an opportunity to meet it, and probably will do so, and get the business. Such action diminishes the competitive atmosphere and therefore may allow prices to range above the minimum level that would otherwise prevail. Bell Telephone's requirements constitute by far the biggest proportion of the total market for telephone equipment. It owns and services approximately 70 per cent of the telephones in Canada as we understand it and a significant proportion of the total market for many other products; for example, communications wire and cable. As Bell Telephone's main supplier, Northern Electric enjoys an important competitive advantage which does not necessarily reflect superior efficiency but rather the monopoly condition of a captive market.

I want to emphasize that I am not casting aspersions on the efficiency and good management of Northern Electric; far from it. I am simply saying that in principle the advantage that is enjoyed by Northern is not necessarily a reflection of superior ability.

To allow Bell Telephone to acquire other non-regulated companies, or to acquire other regulated companies while it continues to control non-regulated suppliers, is likely for this reason to spread its monopoly power.

You will understand that the concern here is that its monopoly within its own field is regulated and therefore is kept under some degree of control by a regulating agency, but if it can extend that power into an unregulated field, then it has monopoly power there, or would have if this occurs, which is not regulated by anyone. And because it is a monopoly type of power, it is not properly regulated by the forces of the market. This is all I am trying to say.

It is natural, and indeed it is almost inevitable, that a company which requires supplies of goods for its operation will seek to acquire those supplies from its own subsidiaries where they are available from the subsidiaries. Certainly if price and quality are equal it can be expected to prefer to buy from its subsidiary rather than its subsidiary's competitor. Certainly the parent is in the driver's seat in this respect and if the parent is in a monopoly position with respect to its own business it, in effect, constitutes the market for the goods in question and it has the power to control, or at least substantially influence the fortune of those who are producing goods for that market. There is no reason why Bell Telephone should be an exception to this principle. What is of concern from the standpoint of the Combines Investigation Act is the fact that Bell Telephone does have this power and must be assumed to be susceptible to the temptation and the pressures to favour Northern Electric as its subsidiary.

In saying that I do bear in mind Mr. Marquez's remarks to this Committee. It is therefore in a position, through its subsidiary and any others it may see fit to acquire or create in the future, which refers to the power in clause 8, dominate the manufacturing activity in which they are engaged and, indeed, ultimately to monopolize that segment of the manufacturing market.

In his evidence before this Committee, Mr. Marquez has explained that there is no legal obligation on Bell Telephone to acquire supplies from Northern Electric but that Bell Telephone, like other telephone companies, will seek to acquire its supplies in the most economical way. It will presumably, therefore, exercise a choice between its subsidiary and its competitors where that choice is available. There is also no doubt that an important factor, in addition to quality and price, in Bell Telephone's decision, is its preference for equipment that meets its technological needs in a standard way, and that its decision will be influenced by the ability of competing products to be used effectively and with a minimum of trouble and inconvenience in the operation of Bell Telephone's communications service.

• (10:50 a.m.)

This, of course, is an important factor in the technological sense that cannot be overlooked, but it remains to be explored whether or not competing products, if they are available, could be produced to satisfactory standards, objectively set, so as to provide Bell Telephone with a choice of competing products while at the same time not impairing the technological efficiency of its communications system.

If indeed, it should in due course be demonstrated as a fact that Northern Electric is preferred by Bell Telephone over all other suppliers for the products that Northern manufactures, then there are two points which I think ought to be made.

The first is that Northern may indeed be the most efficient of the suppliers of Bell Telephone's requirements in the market and Bell Telephone may indeed be receiving goods of the best quality and design at the best price. This is more likely to be the case if there are competing suppliers in the market who will force Northern Electric to maintain a position of efficiency and so merit getting the Bell Telephone business. I do not wish to suggest that this is not at present the case indeed, this is one of the matters which our inquiry must determine. But if this situation does at present prevail, there is no guarantee that it will do so in the future, particularly if other suppliers do not have any



effective opportunity to enter the market and obtain a share of Bell Telephone's business.

The second point is that if Northern Electric continues to be the major supplier of Bell Telephone, and if other subsidiary companies are acquired or developed in the future by Bell Telephone with a similar result, this will tend to discourage competition in the manufacturing industry which supports the telecommunications service industry. In such a situation the opportunity is there—and I just simply say it is an opportunity—for Bell Telephone to extend its monopoly through its subsidiaries into this supporting industry.

Some examples of what may occur, which I am taking at face value for the present, have been given to this Committee by some of the witnesses. Mr. Zimmerman explained to the Committee the concept of the electronic highway. It is only in the area of the telephone service that Bell Telephone is regulated and is required to provide such service to all comers by law at rates which are subject to regulation. Bell Telephone appears to be free, apart from this, to control access to the electronic highway and to exact terms and conditions for such access. I suppose Bell might be regarded as having a tollgate at the entrance to the highway and as you go through it you pay the toll.

For example, it has been explained to the Committee that Bell Telephone insists that users of telephone service are required to use equipment acceptable to Bell Telephone, which means that telephone sets supplied by Northern Electric are in fact the sets that must be used.

One witness (D.C.F. Systems Limited) mentioned special attachments such as push-button telephones, buzzers and speaker telephones, which, it was said, are charged for at a higher price than necessary. Whether or not this is a correct judgment—which I do not attempt to answer—it must be true that Bell Telephone is in a position to control the source of supply as well as the price of such equipment.

In other words, I suggest to the Committee that the user of the electronic highway, when he goes through the tollgate, must demonstrate to Bell that he is using the car that Bell wants him to use, or perhaps Bell's own car, to get on the highway.

It is a possible example of what I would describe as a tying arrangement whereby Bell Telephone can, and perhaps does, insist that as a condition of providing access to the electronic highway the equipment used shall be provided by Bell Telephone or a source designated by Bell Telephone. Mr. Zimmerman of Industrial Wire and Cable mentioned CATV. He stated that an independent CATV operator wishing to install a system must negotiate with Bell Telephone for the use of its right-of-way and, in his opinion, there is no other economic alternative route available. He then described some of the conditions that Bell Telephone might impose with respect to the use of the equipment which is attached to Bell Telephone's cable. He also stated that Bell Telephone can bring economic pressure to bear to force the CATV operator to use Bell Telephone cable rather than setting up his own. Assuming this illustration to be a factual one, I would be concerned that, through this form of control, Bell Telephone might in future develop through its subsidiary the manufacturing of equipment designed to be used with Bell Telephone cables and, in due course, to insist that only equipment manufactured by the Bell Telephone organization should be used.

I am not necessarily speaking at the moment about the telephone, in which, as I understand it, that is what now prevails; I am talking about all sorts of new equipment which is being developed for the future.

An example of this might allow me to illustrate Bell Telephone's interest in the non-telephone field. This was given by D.C.F. Systems Limited in its brief in connection with its client's wish to use Canadian National-Canadian Pacific telecommunication new broad-band switching network to connect to computers. The Committee was informed that Bell Telephone offered extremely favourable prices to attract the business to its own network which was in process of being installed. D.C.F. also mentioned a case where a client who wished to connect a computer in one building to a terminal in another received a reasonable price quotation on the assumption that Bell Telephone's data sets would be used, but that when the client disclosed it wished to use sets supplied by another manufacturer, it was told that the price arrangement would be less favourable.



These and other examples that were given illustrate both the interest of Bell Telephone in meeting threats to its control of the electronic highway and also in using its market position to develop a market for products produced by the Bell Telephone organization or other designated suppliers.

Therefore, I say that there is an interest—a desire—to do this, as well as the power to control the situation.

It is the opportunity to use its regulated monopoly position in the telephone field to extend its activity into other fields both in telecommunications and in manufacturing equipment for telecommunications purposes that I see as the cause for concern. The power is there and witnesses have given some indication that the tendency is there also.

In saying this I feel obliged to point out that through the present integrated structure the general public has received a first-class telephone service. I suggest that what has to be considered for the future is whether a greater degree of competition in the manufacturing of telecommunication equipment for the Bell Telephone system can or ought to be developed without impairing the service that the public is now receiving; and whether to permit further integration of the Bell Telephone organization will work to the advantage or disadvantage of the public at large, including Bell Telephone subscribers and other members of the public who are not necessarily subscribers.

I might mention another tendency which may flow from a monopoly position in the market. This is the tendency to delay innovation. An example of the tendency was given by D.C.F. Systems Limited when they mentioned what they alleged to be “the slow rate at which electronic switching or touch-tone telephone systems are being implemented.” They suggest that at the current rate of implementation the conversion of the majority of Canada’s telephone systems to touch-tone equipment will not be completed for a decade, a schedule which they regard as unacceptable. However this may be—and I pass no judgment—it is true that the extension of Bell Telephone’s monopoly may tend to blunt somewhat the pressures to innovate as rapidly as possible.

Mr. Chairman, I now go on to a second point which I have mentioned as one of the

issues as I see them and that is: Increasing the Difficulty of Effective Regulation. As I have said, my concern is with competition policy. At the same time, I think I should point out that, in one sense, I have a special interest in the effectiveness of regulation. Bell Telephone is conducting an enterprise which is partly subject to regulation (i.e., in relation to telephone rates) and partly subject to the forces of the market, in respect of certain services it provides itself and of the manufacturing activity of its subsidiary. Where regulation of an enterprise by market forces is partly replaced by the regulatory authority of a government agency, it is important to ensure that activities that take place in the unregulated sector of its business do not frustrate or hinder the regulatory agency in the discharge of its function.

• (11:00 a.m.)

There are three areas where the task of the Canadian Transport Commission in regulating telephone rates may be complicated by a proliferation of the non-regulated activities of Bell Telephone, either within the framework of the company itself or by virtue of the establishment or acquisition of subsidiary companies. If in particular circumstances the Commission were obliged to make some judgment about the prudence of a proposed investment, or about the fairness of a particular rate, or about the reasonableness of prices paid for particular equipment by Bell, the problem faced by the Commission of arriving at a responsible decision could be complicated by the extent to which common corporate services or facilities or other overhead were shared by the regulated activity and the non-regulated activity, and by the extent to which fully competitive prices were not available to test the prices offered by the integrated supplier.

There is room for a difference of view about how seriously the proliferation of non-regulated activities could hinder effective regulation, but unless there was no connection whatever between the various activities of the Company, the costs and revenues associated with the non-regulated activities might have to be sorted out in particular cases from the costs and revenues associated with the regulated activity.

If the Commission were required to come to a decision about the prudence of some important investment by Bell Telephone, to

the extent that the investment made some contribution to both the regulated and non-regulated services performed by Bell Telephone, the Commission would have to consider whether the cost of the investment had been properly allocated to each service in relation to the benefits derived by each service.

To the extent that a regulated service was provided, utilizing some of the same facilities, including personnel, as were used to provide a non-regulated service, the Board would have to reach some decision about properly allocating the joint costs before coming to a conclusion about the fairness of the charges for the regulated service.

To the extent that Bell Telephone's integrated suppliers become the dominant factor in the Canadian market in certain product lines, to this extent it becomes more difficult to determine whether Bell Telephone is obtaining competitive prices in buying its requirements.

It therefore appears to me that the concern I have expressed about the danger of the spread of monopoly power through the proliferation of Bell Telephone's non-regulated activities, is, if anything, reinforced by the added difficulties which such activities may contribute to effective regulation.

Concerning the issue of shares clause 3, if enacted, would permit the Directors of Bell Telephone by by-law to create and issue preferred shares subject to the approval of at least two-thirds of the votes cast at a special general meeting of the common shareholders called for the purpose. Section 162 of the *Canada Corporations Act*, which sets out more onerous conditions as to the approval of the shareholders, is made inapplicable to Bell. (By clause 4, the present requirement that the issue of capital stock must have the approval of the Board of Transport Commissioners is repealed.)

The control by the Canadian Transport Commission, as it now is, over the issue of capital stock does not appear to have unduly restricted Bell Telephone's development. To remove this control would give the Company a far greater freedom of action, particularly with respect to the issue of shares as part of the transaction of acquiring other enterprises as would be authorized by clause 8. In view of the difficulties already described inherent in Bell Telephone's extension into non-

regulated activities, it would be desirable not to eliminate the control which the Commission now has over the issue of shares. Indeed, it should be noted that the present control by the Commission is very limited, being confined by the Special Act to their giving approval to the amount, terms and conditions of issue, sale or other disposition of capital stock. This does not appear to authorize the Commission to control the purpose for which the stock is issued. If this is a correct interpretation, the Commission lacks the ability to limit Bell Telephone's acquisition of other companies in return for stock issue. In view of the problems that I have previously outlined concerning the power sought by Bell Telephone under clause 8 of the Bill, I should have thought it appropriate that the Commission be given a wider power to enable it to control acquisitions by this means.

Now on the point about extension or clarification of existing powers I remind the Committee that clause 7 defines the powers of Bell Telephone to perform various telecommunication services. Bell Telephone being unable to forecast all possible technological changes, proposes an amendment which would permit the Company to use and adapt any improvement or invention for communicating with others and any other means for communicating that may, in the opinion of the Board of Directors of the Company, be deemed to be in the interest of the Company. Clause 7 clearly contemplates the exercise of powers by Bell Telephone beyond the field of telephone systems as it gives far-reaching powers to develop the widest possible range of telecommunication services, including, as I see it, radio, television, satellite communication, telemetry, electronic data processing and computer services.

It is of course desirable that the powers of the Company be clarified in modern terminology to permit it to provide its services as a common communications carrier by means of current and developing technology. If this is the only effect of clause 7, I do not see any problems in the nature of those I have described arising out of the amendment. If, however, the effect of the amendment is to extend the powers of the Company to permit it to undertake new businesses, such as the business of radio or television broadcasting, then I see cause for concern. The legal effect of the clause is a matter, of



course, on which the Committee may wish to obtain legal advice.

Bell Telephone is partly a common carrier of communications, and as such it operates equipment that transmits signs, signals, writing, images or sounds. It would be an extension of its monopoly as a public utility if it should enter the field of radio or television broadcasting in the sense that it becomes the producer in addition to being the carrier of programs. The only point I wish to make here is that the Committee would wish to recommend such an extension of powers only after very carefully weighing the implications.

In conclusion I have to say that I really have not formed any conclusions. As I have stated, it would not be appropriate for me to do so until the results of my inquiry under the Combines Investigation Act are known. I again emphasize that what I have attempted to do is to point out to the Committee the matters that appear to me to be cause for concern and which form the background for the inquiry that I have undertaken.

In the light of the foregoing, it may be, as I have already said, that the Committee would consider that it should defer recommending any extension of Bell Telephone's powers, particularly under clauses 7 and 8, until the facts are fully known and an opportunity is given to form a mature judgment.

Mr. Chairman, that is my prepared statement.

**The Vice-Chairman:** I want to thank Mr. Henry for the well-prepared brief. I now give the floor to Mrs. Rideout.

**Mrs. Rideout:** Mr. Henry, I must first explain to you that I certainly do not have any great knowledge of the Combines Investigation Act or how it works so what I would like is a little information for clarification.

First of all, is this the first time that it has been made public that there is an inquiry about Bell Telephone?

**Mr. Henry:** Yes, it is, Mrs. Rideout. This is quite an unusual procedure.

**Mrs. Rideout:** Were any of the witnesses that we have heard before aware there was an inquiry?

**Mr. Henry:** Those concerned, from Bell and Northern, would be aware of it but nobody else would.

**Mr. Rock:** Who forced this inquiry?

**Mrs. Rideout:** That is my question. I am sorry, Mr. Rock. What brought on this inquiry—the decision to have an inquiry? Was it because of representations that were made to you?

**Mr. Henry:** No. This was undertaken entirely on my own initiative. Of course, there have been representations made to me about Bell Telephone and Northern from time to time over the years. This happens to any large business organization. A large corporation is a large target which is easily hit. We get complaints about many such situations. I have explained in public on many occasions and it is in my annual report that the test that guides me in starting an inquiry is whether I have reason to believe that there is an offence. There are other ways of getting an inquiry started, I might say. Perhaps for Mrs. Rideout's benefit, because she asked for some help on this, I might say what they are.

First of all, any six Canadian citizens, by placing certain material before me as Director in accordance with the statute, that is by a slightly formal procedure which is not difficult, may compel me to undertake an inquiry. So, first, you have an inquiry which is initiated by six Canadian citizens. Strangely enough, in spite of all we hear in public discussion, we have only one or two applications annually from six citizens.

● (11:10 a.m.)

The second way in which an inquiry may be started is by direction of the Minister responsible for the Act. This is not a route which is usually taken; indeed, I cannot remember any inquiry that I started that was started on the instruction of a minister.

The third way is where the Director has reason to believe that there is an offence. The statute says that in those circumstances the Director is obliged to commence the inquiry. This is why the Minister will explain to the House of Commons, when a member asks whether an inquiry into a particular situation is being started, that the Director is in possession of the facts and will do what the statute requires. If I, as Director, consider that I have reason to believe—and all I have to have is reason to believe—that there is an offence, I must start an inquiry. These are the three ways.



This particular inquiry was started when the acquisition of Maritime Telegraph and Telephone took place and I saw that Bell apparently was intending to extend its own communications services in this manner. That is not to say that it is wrong for them to do so, but it also appeared that the general concern which we had about Bell Telephone was reflected in the reaction of the Nova Scotia government, because they had the same fear about what would happen to the suppliers of Bell now that control was being taken over by Bell which has its subsidiary, Northern, in the supply field.

To put it briefly, we have had complaints from time to time about Bell and Northern and the connection between the two, but this inquiry was not started as the result of a complaint. I started it on my own initiative, having observed what was going on in this particular market.

**Mrs. Rideout:** Mr. Henry, am I correct that you did say that an inquiry of this kind took about two years?

**Mr. Henry:** Probably, Mrs. Rideout. We have just finished a case in the courts which has taken about 12 years.

**Mrs. Rideout:** Does this restrict Bell in any research? We are living in a very advanced technological age. If they are going to be two years behind in keeping date abreast in communications media does this restrict them, or may they feel as though somebody is peering over their shoulder in every move they want to make? What position are they in?

**Mr. Henry:** I doubt very much, Mrs. Rideout, that my inquiry would restrict Bell and Northern doing anything. They know what the law is. As do any competent businessmen, they know exactly what I have to do. They have their own very good legal advice, as I have, and we pursue our own routes according to what our judgment tells us is the right thing to do. The fact that I have an inquiry in progress, I think I can say categorically, would not in any way alter the decisions that Bell and Northern make any way whatever.

**Mrs. Rideout:** In all fairness—and I am speaking only from information that I have I think we do owe a lot to Bell for what they have provided in service. Certainly, if they had not had the initiative and the money

probably we would not have had such an up-to-date service in Canada. That is my theory. This is just my personal opinion. I am glad to hear you say that you do not think it will restrict them.

**Mr. Henry:** The inquiry itself will not restrict them in any way, because I am sure that Bell Telephone is entirely satisfied that what it is doing is within the law.

From my knowledge, the executive offices of Bell Telephone, whom I regard as men of great ability and integrity, know where they stand as to the law and are prepared to defend any position which they take. I do not for one moment think that they will be inhibited by a Combines inquiry. I know that many citizens think—and businessmen often take this approach when they come to me about a problem—that to start an inquiry, or just write a letter to a company will stop their doing what they are doing.

**Mrs. Rideout:** Yes.

**Mr. Henry:** It does not happen that way.

**Mrs. Rideout:** It does not?

**Mr. Henry:** If they know what they are about it does not happen; and I do not work that way. I do not start inquiries just to try to bring about a quick result, and I do not write letters just to try to pressure people into doing something. If what they are doing is lawful I leave them alone. If what they are doing is unlawful, and I think that there is some evidence of this, then I have to pursue the matter. It is how it turns out, you see, that is the important thing. That is why one must not prejudge.

Unfortunately, once it is known that a Combines inquiry is in progress people tend to make a prejudgment and think that if the Combines people are involved in the situation there must be something wrong. That is not necessarily so. The purpose of the inquiry is to find out what the fact are, and then there is procedure which follows.

First of all, once the inquiry is completed we have to assemble all the evidence, and then, having decided whether or not there appears to be some breach of the Combines Investigation Act, we make a decision on which of the two routes provided for under the statute we will follow.

The first possibility is to prepare a statement of evidence, which, in a large inquiry, could be two or three large volumes of material. I can recall one case in which there were seven, therefore you will understand that this is a very voluminous document. This statement of evidence would be submitted by me, as Director, to the Restrictive Trade Practices Commission. The Restrictive Trade Practices Commission then has the task, under the Combines Investigation Act, of examining this evidence and—I am going to refer to the statute so that you will have it exactly—

... shall review the evidence, or material, appraise the effect on the public interests of arrangements and practices disclosed in the evidence and the report shall contain recommendations as to the application of remedies provided in the Act or other remedies.

The purpose of going to the Restrictive Trade Practices Commission is to obtain what I sometimes call a royal commission type of report about the whole situation—economic analysis of the facts and situations that are shown in the evidence. All this evidence is developed by formal powers, including the calling of witnesses and the submission of affidavits and so on.

They then make their judgment on this matter and recommend what should happen. This could be a recommendation for an amendment of a statute, or that some legal remedy in the act be pursued, or that the tariff be adjusted. All these are available to them. Sometimes such reports result in a prosecution, and if there is an actual breach of the Act they should be prosecuted.

The other route is not to go to the Commission at all, but to go direct to the courts. The decision on which route to take would be an important one for me to make at the time if I concluded that there was a breach. In this kind of situation the normal course would be to go to the Commission and get the report which would then be published and would form the basis of any further proceedings that might take place.

• (11:20 a.m.)

This, incidentally, is the route that was followed in our inquiry into the Shipping Conference, and I think all members have a copy of the report that was produced by the Com-

mission about two years ago. They recommended that certain steps be taken which amounted to a change in legislation, in view of the role that the Shipping Conference plays in our international trade.

That is the sort of thing which might develop, Mrs. Rideout, out of the inquiry; but neither what the inquiry will ultimately produce nor, the exact route that we will follow can be forecast.

**Mrs. Rideout:** Notwithstanding that you say in your brief, that you do not prejudice, you do suggest that some of the problems be set aside until after the inquiry, which means an indefinite time, actually?

**Mr. Henry:** Yes, that is true. I said that if the problems that have been disclosed in the Committee by myself and other witnesses impress you as being such that they should be given careful study, as I think they should, there is no need to hold up the main portions of the Bill.

**Mrs. Rideout:** You do not think this will affect the whole context of the Bill?

**Mr. Henry:** Bell Telephone will have to answer this themselves, but I do not think the powers contained in clauses 7 and 8, which in effect are put in for clarification, are going to be essential to them for some project they are about to undertake. What they appear to want in the Bill is the power to issue new capital and to get on with their next 10-year program in the normal way, including the development of it. One thing I would like to say about clause 7 is that I think it would be well for the Committee to know, on the basis of some legal advice, whether or not it does in fact extend the powers of Bell in the telecommunications field. If you are advised that it does not, then there is no problem. You will simply have an updating of the wording, with which as a lawyer I entirely agree. I suppose it could be said that Bell might say, "You have horse and buggy language for the jet age." I entirely agree with that. The question is whether you wish to extend the power. If you wish to extend the power, and if this does extend the power—which is a matter of legal interpretation—then there are some issues to be considered.

In connection with clause 8, which gives the power to acquire companies, Bell would



again have to say how urgent that is. However, I should think it is by no means as urgent as their new capital requirements. I am also suggesting to you—and perhaps I did not emphasize this before but I will do so now—that I see no reason why power to acquire or set up a subsidiary company to do research should be withheld. This is something which I think quite obviously they should be permitted to go on with. It would not make any difference to the problems that I have been discussing if they feel that this is urgently needed as the basis for research. I am more concerned about their getting into the manufacturing field to a greater degree and extending their services beyond telephone services without their being any real regulation to this. Neither of those things that I have mentioned, entering the manufacturing field through its subsidiaries or extending services beyond telephone services, are covered by any form of regulation by the Board of Transport Commissioners. At present the service field is not covered under the Combines Investigation Act, so there is no control by resort to the provisions of that Act, although there is control over the manufacturing end of it.

**Mrs. Rideout:** Thank you very much, Mr. Henry.

**The Vice-Chairman:** Mr. Reid, you are next.

**Mr. Reid:** Thank you, Mr. Chairman. First of all, Mr. Henry, I would like to ask what is the proper definition of a common carrier?

**Mr. Henry:** Mr. Reid, perhaps I could answer you by saying—I do not have any well-established legal definition in front of me to read to you—what a common carrier by law is obliged to do, and I am talking about a common carrier that carries goods on the ground.

**Mr. Reid:** Right.

**Mr. Henry:** A common carrier is a person who by law is obliged to carry goods for hire, that is, for a fee, by anyone who wishes to apply to him for the purpose of carrying such goods. When he holds himself out as a common carrier he must carry your box of luggage or your product, or whatever it may be, if you apply to him and pay the rate. And, of course, it must be a reasonable rate

and not in effect a prohibition against using his services.

**Mr. Reid:** Normally speaking these rates are published and available to all?

**Mr. Henry:** Yes, normally they are. Trucking companies, railways and shipping companies all publish rates.

**Mr. Reid:** Taking the analogy which DCF gave us in electronic terms of the common carrier being similar to a hydro electric system delivering electricity and then being utilized by a variety of instruments of standard quality, and also Mr. Zimmerman's concept of the electric highway, does this concept not also apply to Bell in its communications sector?

**Mr. Henry:** Yes. I thought this analogy was very well expressed by those witnesses. It seems to me that it applies.

**Mr. Reid:** Does Bell presently operate its common carrier operations on this basis?

**Mr. Henry:** In my prepared statement I mentioned that Bell, under its Special Act, has some obligation to provide telephone service to all comers. I am not being precise because there are some exceptions. For example, I do not think it has to go more than 200 feet from the highway into your house. The basic idea is that they are offering a telephone service which almost anyone who wishes to become a subscriber may use.

In that respect they are being used as a common carrier of messages. The concept of the common carrier is pretty well held to there. Their rates are under regulation although all common carriers' rates are not necessarily under regulation. I can tell you of some that are not. Regulation is not a necessary ingredient in the common carrier concept, but in Bell's case it is in its telephone service. I am not too sure if it is a common carrier with respect to the other services it provides because as I understand it it is not under a legal obligation to provide anything but telephone service to all comers. Presumably it can pick and choose but that is not to say that it does. I think the Bell organization would have to say what their policy is and I suspect, without being able to demonstrate it or be absolutely sure of my ground, that they make their facilities for the carriage of communications traffic available to anyone on terms.



**Mr. Reid:** On terms?

**Mr. Henry:** On terms, and that is the important point.

**Mr. Reid:** Is it not a fact, though, that all common carriers publish their rates, which are available to all comers?

**Mr. Henry:** Most...

**Mr. Reid:** Or are they in a position where they set their rates depending upon the circumstances which they may be faced with, such as too much competition or...

**Mr. Henry:** That is true, Mr. Reid. Most common carriers publish their rates, but unless the statute requires this they do not have to do it. I can tell you that the shipping conferences, which are a pretty important common carrier, up until about a year or two ago did not publish their rates.

**Mr. Reid:** Would you say this is a tendency in Canadian regulation to force common carriers to publish their rates?

**Mr. Henry:** I think there is a tendency in that direction. Certainly it is generally done, and when it is generally done it is regarded as quite a proper part of being a common carrier to publish your rates.

**Mr. Reid:** Do you agree that this is a desirable tendency?

**Mr. Henry:** Yes, I do.

**Mr. Reid:** To your knowledge are there any great restrictions on common carriers in terms of the business they can operate in and the rates which they can charge?

• (11:30 a.m.)

**Mr. Henry:** As far as the rates on their common carrier business are concerned it is the general theory that the rates must be reasonable having regard to the traffic. There is more than one theory of rate-making, which I could not explain too well to you, but it is recognized that there are principles to be followed.

Normally common carrier are regulated with respect to their rates—at least some of them are. This again is like publishing rates. It is something which is not universal but nevertheless the development tends to be that the rates be regulated.

**Mr. Reid:** Do these common carriers have to accept the business which is given to them within the limit...

**Mr. Henry:** Yes.

**Mr. Reid:** ... that is set out either by statute or by law, or by regulatory...

**Mr. Henry:** A true common carrier does, Mr. Reid, the sort of exceptions being that he may not have to carry a dangerous substance like explosives or something like that. You see, obviously there are practical limitations on the liability of a common carrier to carry goods. I am talking now about ground carriage.

**Mr. Reid:** Yes.

**Mr. Henry:** I think perhaps you are trying to make, or have already made, the analogy to the telephone, or total communication system.

**Mr. Reid:** That is correct. That is what I am leading up to.

**Mr. Henry:** I think it is a fair analogy, because I must say that I thought Mr. Zimmerman and counsel appearing with him put this concept very clearly. It appealed to me as one who needs a little help in the technological field to understand what it is about, and I thought it was put very well. I see this electronic highway, so to speak, as being in fact the means of carrying the goods. In the case we are talking about it is not goods; the goods, so to speak, are the messages, the signals, the sounds, the pictures and so on. In this respect it is a public utility, and perhaps the public utility is an equally good expression to the idea of a common carrier, because the public utility also must furnish to the citizens of the area whatever the service is that it provides. Discrimination is not normally one of the things that it is permitted to practise.

**Mr. Reid:** I note you are familiar with the brief the DCF Systems presented to us. Part of my questioning was leading up to the point you just made and the other has to do with the concept of all-inclusive pricing, which was the example given as case 5 by DCF. This is on page 9 of DCF's brief and the thing that bothered me in this particular case was that Bell was able to beat competition for terminal connectors by its control

over the rate of the common carrier, that is, of the section of their bid which would carry the message from point to point. My point is simply that this seems to be some form of a restraint of competition by its control over the electronic highway, if you will.

**Mr. Henry:** Yes. I tried to say that this is first of all Bell's tendency on the basis of the evidence that has been given. Secondly, I suggest it seems to have exhibited by these examples a desire to maintain its control over the highway and I added a little embellishment on the illustration of the highway by saying that Bell, in effect, controls the toll-gate. First of all, it charges you a fee which is the toll, but then it can also say what kind of car you can bring on the highway and it may be you have to bring on the highway a car that is made by Bell or some subsidiary of Bell. I am thinking, perhaps, in terms of a computer or, to take a rather new development, CATV. Perhaps you must go to Bell's own supplier which would be its subsidiary, or it could be some other company with which it has an arrangement. That is a very well recognized technique called directed buying, one of the things that we find happening in the oil companies which you may have heard about.

**Mr. Reid:** Yes.

**Mr. Henry:** Whoever is going to buy the services finds that he is tied to a certain supplier. In the case of Bell it may or may not be Bell itself, although Bell could manufacture as you know, it may or may not be Northern Electric, the subsidiary, or some other new subsidiary. It could even be some corporation with which Bell has set up some kind of relationship which causes it to direct that buying be made from that company before you come out of the electronic highway.

**Mr. Reid:** My point here is simply that this appears to be a violation of the concept of common carriers which you outlined earlier in response to one of my questions.

**Mr. Henry:** It would be unless you can say that it is not charging an equal rate for equal service, and I am not quite sure whether...

**Mr. Reid:** In this particular case there was a struggle to find out just what price would be charged for sending the signals along the electronic highway, if I may use that phrase,

in order to cut off competition for the two terminal endings that were necessary.

**Mr. R. M. Davidson (Officer in Charge, Merger and Monopoly Section, Registrar General Department):** I think there, Mr. Reid, it should be borne in mind that this service is not, as I understand it, regulated by the Canadian Transport Commission and it does not fall under the Combines Investigation Act either, because it is a service.

**Mr. Reid:** Yes, but my point is simply if it is not, perhaps it should be. Here we are being asked to extend Bell's powers in a number of areas, some of which are going to be very vital, and the only point I am trying to make is that perhaps this common carrier principle should be extended to other aspects of telecommunications systems in order that the public might enjoy the protection that they have enjoyed through the Board of Transport Commissioners and the provincial boards in dealing with telephone rates.

**Mr. Henry:** Yes, I think...

**Mr. Davidson:** I was just going to say, that argument appeals to me.

**Mr. Henry:** I was just going to add to what Mr. Reid has said that I think the fundamental problem here is that Bell Telephone, quite naturally facing possible competition in this field, has reduced its price—I think that is what the problem is—or it has tied the ability to get on the electronic highway to the purchase of some particular company's product.

In the first place cutting the price, as far as I am concerned in terms of competition policy, is the desirable thing to encourage because if price competition takes place then you do get, of course, the best service or the best goods for the best price, to be very, very general about it. In other words, we want to encourage price competition.

**Mr. Reid:** Yes, but the argument against that in this particular case is that by lowering the prices, given a monopoly situation which Bell certainly enjoys here, you destroy competition in other desirable areas.

**Mr. Henry:** That is right and this is where the other side of it comes in. We have in our Combines Investigation Act a situation known as predatory pricing which I men-



tioned briefly at the beginning, and the only point here is that this situation, so far as the service part of it is concerned, is not under the Combines Investigation Act.

**Mr. Reid:** Just to deal with this...

**The Vice-Chairman:** I do not want to be unfair to you, but if you are going to be much longer I will have to ask you to come back in the second turn.

**Mr. Reid:** Yes, Mr. Chairman. I would appreciate being called on the second round.

**Mr. Bell (Saint John-Albert):** I would like to ask Mr. Henry if it is true that in many instances companies that are going to make moves that might be affected by combines legislation come and consult with you in advance and you give them general advice about what your reaction might be to their plans?

**Mr. Henry:** Yes, that is true, Mr. Bell, we advertise in a modest way what we call our program of compliance. This is designed to allow businessmen, who very often find themselves in the difficulty of not understanding the combines law, to come into the office and have a discussion about it. We are quite prepared to give them information about how the Act in our view would apply to a particular thing that they might want to do, any particular decision.

It might be a merger, it might be some kind of agreement they would like to make. More often it is some promotional program they have in mind, or something which may in their view possibly offend against the price discrimination provision. But whatever area of the Act it may be, we hold ourselves open to discuss their problem with them. Now, some businessmen bring an actual problem and give us the facts of what they propose to do and we tell them whether or not this would result in an inquiry. This happens more and more now in the case of mergers and you will see, if you look in the last two or three annual reports that we have issued, that we have described some of these applications to see whether or not a merger would be in breach of the Combines Investigation Act; so that some of this activity is available for public consumption.

• (11:40 a.m.)

**Mr. Bell (Saint John-Albert):** Would it be fair to ask if you have had approaches from

Bell or Northern about any moves they might be making? In particular, was there, for example, any contact made by Bell about their acquisition of Maritime Telegraph and Telephone Company?

**Mr. Henry:** The position I usually take in a situation like this is that in fairness to the person who has come into the office I keep confidential the fact that he has discussed a certain matter. I do not know whether, in those circumstances, I should either confirm or deny...

**Mr. Bell (Saint John-Albert):** I appreciate that, of course. From time to time do you have contacts with the companies that are in question now, along the lines of your answer to my first question?

**Mr. Henry:** We certainly have had many conversations with both Bell and Northern; that is perfectly true.

**Mr. Bell (Saint John-Albert):** If, as a result of this investigation that is now underway, which may take nearly two years, you did decide to prosecute a utility monopoly such as Bell it would be almost a unique situation and there any other examples of this?

**Mr. Davidson:** There is the famous case in the United States, Mr. Bell, of AT & T and Western Electric. Western Electric was the manufacturing arm of AT & T. The general result of that prosecution in the United States was that Western was limited to selling basically to the AT & T market.

**Mr. Bell (Saint John-Albert):** In other words, you do keep a fairly strict watch on Bell's operations, even though they are in a very particular field? What I have in mind is that if you had not begun your investigation you would have felt obligated to follow up the particular complaints, for example, that DCF made to this Committee about this detailed type of thing?

**Mr. Henry:** Oh, yes; this is very true.

**Mr. Bell (Saint John-Albert):** You have not dealt, Mr. Henry, with some of the main parts of Northern's contentions, that their objectives are the export market and the science and defence of Canada. This appealed to us as one of the main arguments for permitting some looseness—if that is the prop-



er world—in adhering to our laws. Have you any comment, generally, on the international market and whether there might be some permissiveness which could be sorted out domestically? I know policy may be involved here, but what do you think of consortia to get Canada international trade, and that type of thing?

**Mr. Henry:** Mr. Bell, that raises, I think, a very important field of exploration. First of all, as I have already said, we have had fairly close contact with, and full co-operation from, both Northern and Bell in any discussions we have had with them. I have always been very much impressed by the performance of Northern, particularly, if I can put it this way, since the crutches which were supplied by the old regime were removed by the prosecution of the wire and cable companies about 12 years ago. I have the feeling that that was of great benefit to the industry in that they did develop a more competitive spirit on wire and cable, although I know they have problems in this field. At any rate, as far as Northern is concerned I am sure that this has been the case. Northern has, I think, shown its ability, and thereby its efficiency, to penetrate foreign markets, and, as Mr. Marquez has said, it is successfully doing that in a small but nevertheless significant proportion of its business. This of course, should be encouraged.

You have, first of all, the need for a company which is efficient enough to find the market and penetrate it. As Mr. Marquez has pointed out, even Northern does not have access to all the markets because in some countries there are sometimes insuperable problems about preference going to the local firm, and this sort of difficulty; and you also have technological problems, of course, as well, which means that one company cannot always supply every user's need for equipment because of, perhaps the need for compatibility with the user's other equipment.

As far as the consortia are concerned, I see no particular problem. Mr. Marquez, I think, expressed a little concern about the inability of companies to enter into consortia for export. I think he was talking about the international market. I can say this that there are many areas where a large order, or a large job, can be undertaken only by a

joint venture, and a consortium for the purpose of undertaking a particular assignment of that kind, or fulfilling a particular order, may have to be carried out by a joint venture because the order may be so big that one company could not undertake it. There is nothing wrong in principle, so far as either the Combines Investigation Act on general market operation are concerned in consortia being developed to bid on a particular project that one of the companies could not do by itself. It is not the elimination of competition; it is a forming of a team.

The other aspect of it is the possibility of combining for export, and members of the Committee are aware that the Combines Investigation Act does provide for this. Some companies have tried to develop such an export agreement. I must say that I am not impressed by any notable success that some of these ventures have had, but others—not a large number—have been successful. However, the power is there in the Act. It was expressly put in there in 1960. So far as I am concerned, this is one of the aspects of the operation of a company under the Act which can be discussed with me.

Therefore, you have those three matters that I have attempted to cover, but I am not sure that I really answered Mr. Bell's question.

**Mr. Bell (Saint John-Albert):** Yes. Specifically, is bigness important, and does the fact that you have not mentioned it in the brief prove that it is not a very important factor in the decision that you may have to make? This was one of the main arguments that Northern put forward. Does it weigh very heavily in your investigation? Within the Act, of course, would you be more ready to allow them to indulge in activities that you might question if there was not this international benefit to the country as a result of them?

**Mr. Henry:** I think we would consider that their market strength, if aimed at the export market, would be perfectly justified. It may be that they have to have this strength to enter the export market, but at the same time one would expect that this should produce a benefit, if anything, in increasing efficiency in the domestic market. I mean, why should the benefit of products getting into the export market at perhaps a lower

price be taken away from the domestic purchasers of those products? This is one of the problems you meet when a firm is trying to get into an export market. It sometimes wants to develop a two-price system so that the foreign buyers get a better deal than do Canadians. I am not suggesting that is what Mr. Marquez has in mind, but this is one of the things that happen. It is not a question of bigness, Mr. Bell. I would like to try to explain that. It is not necessarily bigness in size that produces the problem. You could have quite a small firm which dominates a market because it is much more efficient than the other firms. The real test is the efficiency of the firm because efficiency produces economies within the firm which are ultimately reflected in the cost of the goods and which are ultimately reflected in the price of the goods. Therefore by increasing efficiencies you end up by producing better quality at better prices, if I can put it in sort of slogan form. I would like to point out that bigness does not necessarily produce efficiency and therefore a firm does not necessarily have to be big. It may be big but bigness in itself can produce diseconomies because they are too big, and I am sure that Mr. Marquez will agree with this. A particular firm or plant may get to the point where it has reached the optimum size and then at that stage bigness has nothing to do with it all except to produce a diseconomy. The point is that I would not like to concentrate on the idea of a firm having to become big. I say it has to become efficient but to be efficient in that market it may have to spend money on research, for example, there is no question about this, and it may have to have a marketing force. The important thing is that it should be efficient enough to meet competing firms on their own terms. The only real test, so far as the size of the firm is concerned, is what is required to enable it to do that.

• (11:50 a.m.)

**Mr. Bell (Saint John-Albert):** I have two short questions. You are familiar with the application of Industrial Wire and Cable to the Board of Transport Commissioners and the decision thereon. Although this took place in 1963, I wonder how you would justify it? I consider that in a general way there is some inconsistency in the brief that you have presented today. Both Bell and Northern were virtually given approval by the Board of the Transport Commissioners but you have now questioned quite strongly their

right in connection with purchasing, and the like, through Northern.

**Mr. Henry:** Yes. There is an inquiry presently going on which embraces this situation, this is quite right. Without reviewing it fully, I am not at the moment familiar with the reasoning behind the Board of Transport Commissioners' decision in Bell and Northern. The point that I have in mind is that they held that they would not accept the application put to them by Industrial Wire and Cable because in their judgment Bell's ownership of Northern was legally valid. In other words, that in their judgment Bell was entitled to hold the shares of Northern, which was the point in issue. As you know, leave was sought to appeal that judgment to the Supreme Court of Canada and it was refused so that is where the matter stood. This dealt with the question of the legal right to hold Northern. Of course, beyond that I am not sure the Board of Transport Commissioners would have any authority to take action should they see fit to divorce the two companies. Indeed, as I recall it the Chairman, Mr. Rod Kerr, expressly said that because they had come to the conclusion that the shareholding of Northern's shares by Bell was valid that they could not then reveal what order they would have made if they had wanted to come to the conclusion that the two should be divorced.

**Mr. Bell (Saint John-Albert):** Do you think we could get a satisfactory legal opinion which would help us with Clause 7? You mentioned a minute ago that perhaps legal advice should be sought, but if it is so mixed up in this matter of powers do you not feel that if we asked the Department of Justice or separate counsel that we might end up with a rather woolly opinion as to where all this will lead?

**Mr. Henry:** That is true, Mr. Bell. I am just trying to find my copy of the bill.

**Mr. Bell (Saint John-Albert):** While you are looking for it, I have another question. Are you saying in your brief that it might be possible to give Bell the strict financing authority which they are asking for and us to leave some of the other sections until we have heard from the inquiry? I want to know if these can be separated without doing any damage to the inquiry. It strikes me that we would look like damn fools if we went



ahead with this bill as it now stands and granted all this power, and then found out that the inquiry was questioning a great many parts of the bill. Is it practical to give them the financing they are asking for, while at the same time retaining the other matter for the Commission? I am asking four or five questions here because I feel it is important. You are suggesting that in this bill we might give the Canadian Transport Commission more power to deal with this type of thing and instead of restricting the powers, as this does, you want at least the power that the Canadian Transport Commission presently has and that if possible that power even be extended.

**Mr. Henry:** Mr. Bell, I will try to deal with all the parts of the question and if I fail to do so perhaps you will remind me. It seems to me that Clause 7, as I understand the general explanation that is given on the right hand side of the bill, more than anything else was intended by the Company to clarify. As I have said, clarification is a desirable thing because it settles legal disputes, but it may raise other disputes because once you change the words you have a new ball game. So far as lawyers are concerned this is perfectly true. However, I did not gain the impression that this is an urgent matter. This is what I am getting at, that the matter of clarification is desirable but the intention is not to hang anything on this in the immediate future. I could be wrong but, of course, I am not competent to speak for Bell.

I think that the new Section 5, which would be enacted by Clause 7, does import some new elements and I think there is a very proper legal question to be put to the legal adviser, whoever that may be. You asked whether this should be the Deputy Minister of Justice. He, of course, could be approached but I suspect that the Law Clerk of the House or some outside firm might better be selected. However, the Deputy Minister of Justice can speak for himself on that.

In the new definition you have the words "power to transmit, emit or receive", which seem to add the words that were previously in force in the 1948 act. That appears to me to open up the possibility that new activities could be embraced by this new definition. "Transmit, emit or receive" suggests to me some kind of broadcasting, and it does not expressly say "on behalf of others". It seems to contemplate that it could be on behalf of

Bell itself. In that respect, if I could just revert for a moment to Mr. Reid's questions, it appears to me that it goes beyond the normal function of a common carrier if at the same time it can be the broadcaster as well as furnishing services to broadcasters.

**Mr. Rock:** May I ask a supplementary question, Mr. Chairman? It seems that it has been established that Bell has to be a common carrier, but where can you prove that it has been established that they are a common carrier only?

**Mr. Henry:** Mr. Chairman, I have not attempted to establish that except in respect...

**Mr. Rock:** This is your direction.

**Mr. Henry:** With respect, Mr. Chairman, I do not think I am here to give direction to anybody. I am here to attempt to assist.

**Mr. Rock:** Pardon?

**Mr. Henry:** Mr. Chairman, I am not here to give direction to anybody. I am here to try to be of assistance. I have not said that Bell is a common carrier in any field except that in which the statute makes it so, which is the field of telephone service, and I suggest it is a common carrier in that field because it is required to provide service to all comers. That is in this statute which in effect prescribes, if I can find it...

• (12 noon.)

**The Vice-Chairman:** While Mr. Henry is looking for the information in answer to that, would the Committee agree that we sit until 12.15 and come back this afternoon? I have quite a long list of members who want to speak. We would adjourn at 12.15 and then come back at about 3.30 after the Orders of the Day.

Is it agreed?

**Some hon. Members:** Agreed.

**The Vice-Chairman:** So we will carry on until 12.15.

**Mr. Reid:** Will it be necessary for you to go to the House with your report to get permission from the House to sit this afternoon?

**The Vice-Chairman:** No. We have that permission.



**Mr. Henry:** I find the provision I am looking for in the Special Act of the Statutes of 1902, chapter 41 which

...provides upon the application of any person, firm or corporation within the city, town or village or other territory within which a general service is given and where a telephone is required for any lawful purpose, the Company shall, with all reasonable dispatch, furnish telephones, of the latest improved design then in use by the Company in the locality, and telephone service for premises fronting upon any highway, street, lane, or other place along, over, under or upon which the company has constructed, or may hereafter construct, a main or branch telephone service or system, upon tender or payment of the lawful rates semi-annually in advance, provided that the instrument be not situate further than 200 feet from such highway, street, lane or other place.

That is the basic provision.

**Mr. Rock:** Where then does...

**The Vice-Chairman:** Mr. Rock...

**Mr. Rock:** We are still on that supplementary. Where does it prove that it becomes a carrier? Common carriers carry all kinds of things.

**Mr. Bell (Saint John-Albert):** I think the only part that Mr. Henry did not cover was the reinstitution of clause 4, which would make the stock approval...

**Mr. Henry:** I have said, I think, that in my view the new definition of the powers in clause 7 goes a bit further than it did before. As far as the stock issue is concerned, from my point of view, the point there really is this. It would be of advantage for the Canadian Transport Commission to be able to make some judgment about the purpose for which shares are to be issued in the sense that when you have an acquisition of a new company by Bell which is to be paid for by the issue of shares, it would give the Commission an opportunity to place some control on that with respect to purpose, which I understand they do not do at the moment. As I understand their authority at the moment, it is to say whether or not they approve the price or the terms of sale, whether or not it

is an adequate return and so forth, but not to disapprove it on the grounds that it is a purpose to which they see some objection. All I am saying is that it would appear to me that rather than remove the control of the Commission altogether, it would be more appropriate, from the standpoint of the issues I am discussing, to have increased it to that extent to permit the Commission to say whether or not they approve of the purpose for which the shares are issued, having in mind that in most cases it will probably be that companies are acquired by an exchange of shares. It is not complete control, I should point out, because it would not give the Commission power to control a cash purchase of the shares in another company or to raise the money for the purpose by a bond issue. But at least, in this manner...

**Mr. Bell (Saint John-Albert):** I think that Industrial Wire put this case forward and perhaps you would agree with them in their saying that when new money is required it is a responsibility to see that this money is stated to be for certain objectives and this should be policed quite seriously to see that the money is used only for those objectives within the company.

**Mr. Henry:** I would agree with that submission, particularly if we are dealing with the part of the Bell Telephone organization's operation that properly should come under regulation; that is, the public utility part or perhaps the part that we have been discussing as the common carrier part.

Indeed, one of the points that the Committee might wish to bear in mind, Mr. Chairman, is that after all, if you are starting to do this with Bell Telephone, you must bear in mind that there are other telephone companies who are also to a much lesser extent in the same position—and I do not mean as far as their market power is concerned, though that could be—and who also should be brought under any such legislation in a common way. You do not want to penalize Bell by placing it under particular restraints that other telephone companies are not under, it would appear to me.

**Mr. Bell (Saint John-Albert):** But you do not have any fears concerning the relationship of the rate to this financing? It appears to me that in your brief you divorced your-

self from any mention of where the rate would fit into any sort of new financing.

**Mr. Henry:** For telephone service or with respect to shares?

**Mr. Bell (Saint John-Albert):** Well, some of those who submitted briefs have been worried that the new rate regulations with respect to earnings might cause Bell to manipulate the market and thus bring about a higher rate. You would not worry about this? You do not think we should try and fasten to the new financing request any sort of stipulation which would tie them down on the rates any more than they are at the present time?

**Mr. Henry:** This is perfectly true. I have not mentioned this but if you would like some further elaboration, Mr. Davidson might do this. But I think you are talking particularly about the issue of preferred shares which might give rise to the problems which I think were discussed in this connection, but at the moment we do not see this as having a very great bearing on the issues that I have discussed, although there is a factor here which might be explored. I think the reference that you have made, Mr. Bell, is to the question of leverage.

**Mr. Bell (Saint John-Albert):** Is the new method of 1966 dealing with permissive earnings to the rates—I have forgotten the exact terms but the brief has been very helpful and that is my last question. But if Mr. Davidson wants to reply to this, I think it will help us because it looks as though there is some case for giving Bell the financing requested. I am not speaking for everybody but it seems to me that with one or two of these stipulations this is desirable and in everybody's interest. I would like to know if any of the witnesses want to comment on this part with respect to rates?

• (12:10 p.m.)

**Mr. Davidson:** Mr. Bell, I think that it is conceivable that by judicious choice of issue of preferred shares or by issue of bonds, for that matter, the effective return to the common shareholders of Bell could be raised. But this is a problem of effective regulation and it really is not our bailiwick. This is the main reason that Mr. Henry has not referred to the matter. It clearly seems to us a question for the regulators and not for the Combines Branch.

**Mr. Bell (Saint John-Albert):** But surely someone has the responsibility to see that Bell do not manipulate rates in such a way that there is an improper diversion of funds within their organization to competitive sectors?

**Mr. Davidson:** I am not sure I understand the question, Mr. Bell.

**Mr. Bell (Saint John-Albert):** I do not have the quotes here but they are in some of the briefs that were presented. I think the municipalities of Ontario were the ones that made this point quite strongly. They were not accusing Bell of insincerity but were worried that the new method in which they use earnings might bring about a situation where the telephone rates were being manipulated by Bell in such a way that it would bring about a situation whereby the telephone users would be paying for the activities of Bell into these other sectors of competition.

**Mr. Davidson:** On that point, Mr. Bell, I think Mr. Henry did refer to our concern that a proliferation of Bell's activities into the non-regulated area might make it more difficult for the regulatory authorities to effectively regulate the regulated part of the activities, namely the telephone rates.

**Mr. Bell (Saint John-Albert):** If we are going to take your suggestion that they should police to a certain extent the final use of the new funds that Bell might be getting, then I think you have to recognize that you would have to get into some degree of this. That is my only argument. But I have taken time enough; I am sorry, Mr. Chairman. But I think the brief has been very helpful.

**The Vice-Chairman:** Well, I think it is pretty close to 12:15. This Committee will adjourn. If you want a list of those members who asked me to speak they are: Mr. Deachman, Mr. Groos, Mr. Orlikow, Mr. Rock, Mr. Émard and Mr. Southam.

**Mr. Émard:** Mr. Chairman, on a point of order.

**The Vice-Chairman:** Yes, Mr. Émard?

**Mr. Émard:** I have been informed this morning that the translation system was not working. I hope it will be repaired for this afternoon because I have a number of questions I would like to ask.



**The Vice-Chairman:** It may be that this is the reason we are asked to adjourn so early, Mr. Émard; to give them time to repair it.

### AFTERNOON SITTING

**The Vice-Chairman:** Gentlemen, we are ready to proceed with our afternoon meeting. Mr. Deachman, you are first on my list.

• (3:30 p.m.)

**Mr. Deachman:** Mr. Davidson, if I heard you correctly this morning, you indicated, among other things, that you were examining Bell to appraise the effect on the public interest. In doing this will you, for example, compare Bell service with that rendered by other companies in other places? For example, will you compare it with service in British Columbia where another company operates? Will you compare it with service in those provinces where the government operates the system? Will you compare it with the service in the United States, where free enterprise reigns? Will you compare it with the service in England where the system is socialized? Would you comment on that?

**Mr. Davidson:** Mr. Deachman, the problem here is that the Combines Investigation Act, as I have said, does not apply to the Bell Telephone services as such and it is pretty early to say at this stage whether it becomes part of my task to consider the relative merits of the service furnished by different companies and different systems under different forms of regulation.

As I tried to say in the brief this morning, our entry to the field that we are dealing with through the Combines Investigation Act is through the goods which are produced by the subsidiary of Bell Telephone and the whole process by which it goes about getting those goods. One important factor from the standpoint of the subscriber to Bell service is whether or not Bell is getting, or can continue to get in future, those goods and items of equipment at the best price, because if they are not getting it at the best price presumably it is going to be reflected in the subscribers' rates.

You will see from what I am saying that any attention we give to the excellence of the service given by Bell as a telephone company

is really not within the scope of our authority under the Combines Investigation Act. If we deal with it it would be only to show the effect on that service and the cost that must be paid for that service by the subscribers because of what we consider may be a tendency to monopolize the market in equipment. Now it is a rather roundabout way of putting it but that of course is what I am bound to do because of the legal coverage of the Combines Investigation Act. Therefore I am not at the moment pursuing an inquiry to determine whether Bell is in fact providing good service or could provide better service, to put it in the terms that you have suggested.

**Mr. Deachman:** Am I right in saying then that when you have concluded your investigation and when we have the report we will really be no wiser as to whether Bell gives superior service in relation to other companies than we were at the outset of your investigation?

**Mr. Davidson:** I think that is probably true, Mr. Deachman, but I think a consideration which will have to be kept in mind in the course of the inquiry is the extent to which the existing arrangements for the supply of goods or equipment might affect the adequacy of the service if they were changed. I think this is certainly something that has to be borne in mind during the inquiry.

**Mr. Deachman:** Is it not correct that you are speaking here not about goods which pass into the hands of the consumer but goods which are consumed in the industry?

**Mr. Davidson:** Consumed where?

**Mr. Deachman:** Consumed in the industry. You are not speaking about goods which generally pass to the consumer because they do not, do they?

**Mr. Davidson:** Well, except that the companies which are competing with Northern, in part of their operations, may be supplying other goods to the consumer and their competitive position may be affected by the position of Northern and Bell.

**Mr. Deachman:** What did that famous investigation in the United States into AT&T and Western reveal in relation to the impact of the practices of these companies on the



public interest, in what way were they acting inimical to the public interests, and what did the investigation do to relieve this?

**Mr. Davidson:** I think the American courts took the view that the position in which Western found itself in competing for the non-AT&T market gave it a competitive advantage unrelated necessarily to its efficiency and the result of the whole process was that basically Western was subsequently restricted to supplying the AT&T market.

**Mr. Deachman:** Did this restriction result in a reduction of rates or an improvement of service which was evident to the public, or did it produce any measureable advantage to the public?

**Mr. Davidson:** I think the concern was that the effects of Western's operations were felt outside the telephone industry. The objective was not particularly to modify the operations of the telephone industry but was concerned with the development of monopoly in areas outside the telephone industry.

**Mr. Deachman:** Did you have something further you wanted to say on that?

**Mr. Henry:** Mr. Deachman, I do not have the judgment in front of me and if the Committee needs more information about that we will obtain it and try to inform you more fully. But the allegation made in that case which resulted in the judgment was that the absence of effective competition in the supply of equipment had resulted in higher prices paid for telephone equipment and higher subscriber rates. As a result of that allegation the court found in favour of the Federal Government and made the order which indeed divorced the organization's operations from the general market in the first place and required AT&T to provide services only to the Bell organization. While we are on that case, Mr. Deachman, I might add that there is another case of quite recent origin which Mr. Davidson might very briefly explain. I am not sure how much information is known about it but it concerns the attachment of other equipment to the common carrier system that the Bell organization runs. Could you explain that very briefly?

**Mr. Davidson:** I do not have the details at my fingertips but I think, as Mr. Henry put to the Committee earlier, from the point of

view of the Combines Investigation Act we see two areas of danger, one of which is the possibility that markets for the supply of goods to Bell may be foreclosed to competitors of Northern or other subsidiaries which Bell may acquire or incorporate.

The other area concerned, which we also looked at this morning, is where the control, if you like, of the electronic highway permits the controller to decide who will be permitted to attach his equipment to that highway. There was a recent case in the United States in which, as a result of the judgment, as I understand it, AT&T will have to permit the use of non-Western equipment as long as it meets the appropriate standards of technical performance.

• (3:40 p.m.)

**Mr. Deachman:** Evidence was given before this Committee at one of the other hearings that there is a tariff protecting manufactured goods used in the communications business in Canada of approximately 20 per cent. What, in your estimate, is the impact of this tariff on the restriction of competition and on price?

**Mr. Davidson:** I think it would have to be said that the effect is variable because, as Mr. Marquez pointed out in his evidence, in some lines Northern is not only able to sell at a price in effect without any tariff, but it is able to jump over the American tariff wall and still sell its products profitably. That relates to a particular line of business. In that line, obviously, the tariff is not needed by Northern Electric in order to operate in Canada. There are no doubt some lines in which it is needed, and there would be other lines which would fall in between.

**Mr. Deachman:** We have noted in this Committee that The Bell Telephone Company is regulated as to its rates; it is regulated as to its profits; it comes under your department for regulation of its major subsidiary under the Combines Investigation Act and it is regulated as to its charter by Parliament. When I look at these regulating bodies who regulate its rates, profits and methods of doing business, I wonder just who is responsible for the overall regard as to how this company can continue to acquire the capital that is necessary to expand in the very rapidly expanding and changing communications

business. In the course of making your investigation, what sort of an assessment are you making of the very real necessity for a company in the communications business in Canada to find enormous new fields of capital to keep current with world development?

**Mr. Henry:** I think that is a very fair question, Mr. Deachman. We, of course, have to weigh these factors. I have tried in a very small way in the brief to indicate that there is more than one side to the story, and that the side I am presenting, which has a certain direction to it, will, of course, have to be balanced off against other factors. You are perfectly right about that.

I would like to say, if I could go back over it for a moment, that the ultimate judgment, if we are to have a published report, will be made by the Restrictive Trade Practices Commission. That is a body which is not under the control of the Combines Branch because, as you recognize, the Combines Branch has the function of investigating facts and preparing them to place before the Restrictive Trade Practices Commission. The Commission has the function of making the report. That division of jurisdiction came in 1952 or thereabouts.

Therefore, I just wanted to say that while I will be forming some conclusions, I am not an arbiter or anything like that. I simply have to form some kind of judgment which will make me decide whether there is anything that I should put to the Restrictive Trade Practices Commission and then place before them all the facts that are necessary which have been gleaned in our inquiry, in order to let them, then, examine those facts and, also, call upon the companies involved to state their side of the case.

So, before any report is made, or any information about this is given out or any judgments of a final kind, are formed not only would the results of my inquiry be submitted to the Commission, but the side of the case of Bell Telephone, Northern and whoever else might be involved in it would also be submitted. On the basis of the weighing up of all sides of the case, the report would be written. That is what would happen if we decided to go that route, as I mentioned this morning, because we have another route that is going to the courts; but we are far from that at the moment and I only want to point out the alternatives.

You mentioned that there seems to be a great deal of regulation in the picture here. I just want to go over that ground very briefly again. Bell Telephone is regulated with respect to the matters you mentioned only so far as telephone rates are concerned. That is the area of jurisdiction of the Commission. The other services that Bell performs, other than providing telephone service, are not subject to regulation by either the Commission or the Combines Investigation Act. The manufacturing part of the whole organization, that is the supply of goods flowing to Bell, which, as I said, has an ultimate impact on the subscribers' rates, is under the Combines Investigation Act and this is my justification for entering the field.

I am therefore concerned, in entering this field, with the ultimate impact on Bell itself as a purchaser. Of course, this is not in the picture, but to take a very extreme example, Bell Telephone as a purchaser of equipment could be subjected to a combine or an international cartel and would thereby be placed at a disadvantage as a user of the equipment. Then you have a further interest, mainly that of the general consumer; that is the consuming public who use the telephones, who are entitled to the best rates and, of course, the best service. We all know that to get the best service we perhaps have to pay for that service. But our concern is whether or not, considering the way the machinery works and the way the market is set up, Bell is getting the best economic arrangements it can in the purchase of its supplies and the subscribers are getting the best arrangements they can in relation to the rates they have to pay. Now, those are our concern.

We are not particularly concerned with the excellence of the service that Bell renders because services as such do not come under our Act. But in sorting out the facts and forming conclusions on them, it would of course be necessary for us to decide in our own minds, before we take the case beyond the investigation stage, what the implications would be of attempting to take the whole case in the direction of a particular remedy. I have no such remedy in mind at this point because, as I say, I am not attempting to form any judgments. I am merely gathering facts, but it is quite obvious that you could bring about arrangements in the market which would impair the system as we now find it. This, of course, would have to be



avoided and this is where the judgment comes into the matter.

You can take it for granted, if I can answer your question in a general way, that the effect of any conclusions that we might reach and recommendations that might ultimately be made would have to take into account all the implications with respect to the deal that Bell gets in its procurement; with respect to the implications for the service because, as I said in my statement, the service is important, and with respect to its financing.

**Mr. Deachman:** Did I understand you to say that you are not concerned with the excellence of the service?

**Mr. Henry:** Not directly, Mr. Deachman. I am not here to regulate Bell in any way and attempt to say it should be providing a better service. If Bell were not subject to the regulation of the Commission in respect of its telephone service and if the whole of its operation were under the Combines Investigation Act, I would say that my concern would be to see that competition produces the best kind of service. Now, we are not in that kind of industry, I think you will agree, Mr. Deachman; we are in what I would try to describe as a public utility kind of industry. Therefore, on Bell's service you do not expect the same kind of competition to develop simply because of the physical structure of the assets, as you would in the case of manufacturing boots and shoes, or electronic tubes, or something like that. They are quite different.

The railways have demonstrated our problem in that respect. Great utilities stretching across the country cannot be proliferated because there comes a point where you have chaos, and so we accept that you have what I might generally describe as a natural monopoly, but you understand that it is not quite that, because there are other companies, but generally a natural monopoly which we have placed under regulation as a utility. Therefore, having accepted that situation, you then must look to see where Parliament has intended competition to operate, and I say it has intended competition to operate in two fields: the non-telephone services of Bell, which are not covered by any form of regulation, including the Combines Investigation Act, and the procurement of goods, which

puts Bell in the position of being a purchaser of goods.

• (3:50 p.m.)

I have tried to show you this morning that although it is a purchaser, it also is the controller of its subsidiary, and is in a position to dominate the market; and that brings me to one other point: that is, there are people concerned in this market other than the users of the telecommunications equipment that Northern makes. Northern does make other products which have nothing to do with telecommunications. If Bell's strength in the market enables it to support Northern to the extent of enabling Northern to dominate the non-Bell market, that, of course, would be a situation over which we would have some concern. Mr. Zimmerman explained that he had had some problem about that, and I think he explained to you that he had been to see us about the matter, but it also turned out that we could not see any cause for an inquiry in that particular case, and therefore we did not proceed to move against Northern on the basis of that complaint, as Mr. Zimmerman has, in effect, told you in the Committee, simply because we did not think that Northern was doing anything that was contrary to the law; that is the way it works.

So it is a question of objective judgment in each case. But the point is there; the point is there. It would be possible, although it has not actually happened, as far as I know, for Northern to dominate the non-Bell market in matters like wire and cable, and ultimately screwdrivers and things like that, which as Mr. Marquez explained, are also produced. So the general public, the consumer generally, has an interest in that, because it goes into housing wiring, it goes into such minor matters as screwdrivers, and we have some concern there, although I am far from saying there is anything here that is wrong; I am simply saying that that is an incident of this whole package that I have been describing. That is why we are looking at it.

**Mr. Deachman:** Thank you.

**The Chairman:** Mr. Groos.

**Mr. Groos:** Mr. Henry, I have been very much interested in what you have had to say. Your remarks have been very helpful. I



think you said that investigations by your—would you call it a directorate?

**Mr. Henry:** Yes; we informally call it the Combines Branch, Mr. Groos.

**Mr. Groos:** Well, investigations by your Combines Branch can be initiated by the Minister, or by any six citizens of Canada, or on your own initiative; is that correct?

**Mr. Henry:** Yes.

**Mr. Groos:** And I think you said that you do not recall any cases being initiated by the Minister.

**Mr. Henry:** That is correct; not in my experience.

**Mr. Groos:** Is this Minister we are referring to the Registrar General now?

**Mr. Henry:** Yes, sir. He is the Registrar General now; he used to be the Minister of Justice, and then briefly the President of the Privy Council, and now he is the Registrar General.

**Mr. Groos:** You would not get the Minister of Transport, for example, initiating an investigation in a...

**Mr. Henry:** Well, he might, sir. I had an investigation which was initiated in effect by the Minister of Veterans Affairs, but he has no power to do that; I am only talking about the legal power. What I was saying is that the minister who has the responsibility for the Combines Investigation Act does have power to initiate an inquiry, and so does the general public; but what I did not say this morning, because my lecture was already a little too long, is that 99 per cent of the cases are initiated by the Director on his own initiative. What this means is that he takes complaints that come from all over the country. They may come from a minister, from another department, from a member of the public, that is a consumer, or from a businessman who makes a complaint about not being able to get supplies, or something of that sort; but invariably, no matter where the complaint comes from, the same treatment is given to each complaint, and it is considered to see whether there is reason to believe that there is an offence. The result is that we have a very large number of inquiries in progress, so that, in a sense, the six citizens' application adds very little to the

picture because if one citizen wrote in with the same facts and we thought that they did disclose an offence and required an investigation, we would do it, even though it was one citizen and a completely informal complaint.

As far as the Minister is concerned, I think, to put the matter briefly, he is aware that we deal with all complaints on this basis. We have frequent references through our Minister of complaints made by citizens and they are simply routed down to the Combines Branch and they are dealt with in the normal way. So the Minister has never required formally to instruct the Director to commence an inquiry. Am I making myself clear?

**Mr. Groos:** Yes, you are, indeed. This seems to me a pretty big order, particularly when you are acting mostly, in 99 per cent of the cases, as you say, on your own initiative, and your branch also has consultations from time to time with companies to establish whether they are liable to be doing anything illegal before mergers, and so forth. It seems to me that the arrangements are a little haphazard, but I wonder just what it was that triggered off this investigation which you revealed this morning has been under way with regard to Bell. If I understood you correctly, it was not until after The Bell Company had acquired Maritime Tel. and Tel. back in August of last year and the provincial government of Nova Scotia had expressed some concern in this in the legislation that they passed that you undertook to make this investigation, which I think you said started in November. I myself would have thought that the investigations into the case in the United States, which seems to have been somewhat parallel—the AT & T and the Western Electric—might have triggered off an investigation such as this a little sooner. Is this because you have some shortage of staff, or is it just that you never got around to it, or could you help me out there?

**Mr. Henry:** Yes, I think that is a very fair question. Perhaps it is a combination of those matters. I would like to say that merely because an industry in the United States is the subject of an anti-trust investigation does not mean that we should automatically do the same in Canada. This is because the circumstances may be different; all I want to say is that we do not necessarily simply follow suit. Companies are different, anyway.

Your other question I would answer by saying that for some considerable time before they started the inquiry last year, we had been looking quite intensively at what was happening in the field. Now, bear in mind that Bell Telephone as a service industry is not one of the industries that we automatically move towards in terms of combines legislation, because the service part of it does not come under the Combines Investigation Act.

We could think of other industries which are in the same position which we do not particularly try to get into because we know that there is a very large area of their activity which is not covered. There are others which are subject to some form of provincial regulation which we know, if we get into it, will probably raise the question of whether we are into a field that is already covered by regulation and the courts will ultimately tell us that the Combines Investigation Act does not apply. That was the result in the Canadian Breweries case, you may remember; so we tend to give a lower priority to cases that we think we may not be able to put through successfully because of a legal point like that.

• (4:00 p.m.)

Now, in the third place let me say that while we have been giving considerable attention for, I would say, at least two or three years—by considerable attention I mean fairly intensive work on the Northern Bell relationship for two or three years before I started the inquiry—this was preliminary only, and designed to inform ourselves as best we could by informal discussions and from public sources what the situation might appear to be.

I was receiving advice from my staff who are expert in this field, particularly the gentlemen who are here with me today, that a situation was developing here that required some attention, and it was the acquisition of Maritime Telegraph and Telephone which convinced me that the time had come that we should now make the move, because I felt that what Bell was doing was embarking on a course of taking over major telephone companies where it could. Obviously this had the effects that I have spoken of, of eliminating considerable sized, firms as markets for independent producers of equipment, which again was the only business that I have get-

ting into this particular subject matter. It was therefore, if you like, the last step in the unfolding of Bell's plans that caused me to start the inquiry at that particular time.

**Mr. Davidson:** I think it would be worth pointing out perhaps that the Maritime Telegraph and Telephone acquisition was the third major acquisition in 1966, and this had quite some bearing on the timing of the inquiry.

**Mr. Groos:** I want to pursue this business of the staff. Do you feel you have an adequate staff to be able to handle the job that your branches are given?

**Mr. Henry:** I am on public record. I reported this in my annual report two years ago, and it was the subject of some debate in the House of Commons.

**Mr. Groos:** I am asking that question because I am a little bit disturbed by your statement that your investigations have already been going on for a year. You say you think they may go on for another two years, and I think you frightened me considerably when you said that one case went on for 12 years. Would that by any chance have been the investigation of the sugar combine?

**Mr. Henry:** No, no. The case that I referred to was the shipping containers case, that is in the paper industry. Corrugated shipping containers, and the 12 years I referred to—I think my period is about right—were from the commencement of the inquiry until the courts finally disposed of the matter. That was a very sophisticated case, you see. But I am talking about from the beginning of the inquiry until the final disposition by the courts. You recognize that the proceedings in the courts may take as long, if not longer, than the inquiry. The inquiry itself, in that case, I would say took about five or six years.

**Mr. Groos:** Five or six years; the inquiry of this case will take about three years.

**Mr. Henry:** I think so, I would hope we would. I am giving myself a little bit of leeway here; we should be able to do it faster than this, Mr. Groos. This is something I make no bones about. One of the problems that keeps me awake at nights is how we can speed up our inquiries. But you understand that where the Act says I have to commence



an inquiry in certain circumstances it is very easy for an inquiry to start, but it is very difficult to bring all your other inquiries to a conclusion because the staff are continually being diverted for temporary or longer periods of time on new work which must be done; when the complaint comes in and it is a clear case to investigate, you must move on that while the evidence is available. Do you see what I mean?

**Mr. Groos:** I do.

**Mr. Henry:** Once you have got your initial evidence in, then you can proceed more leisurely. In my last annual report—I have forgotten how many and I am subject to being corrected—I think we have something like 80 inquiries in progress, or is it 90? It is a substantial number for a small staff.

**Mr. Groos:** That was going to be my next question. Would it be fair to ask you about how many inquiries you have before you now?

**Mr. Henry:** I think 80 or 90 is correct, but it is in my annual report, a copy of which all members have.

**Mr. Groos:** I do not think we all get around to reading all the annual reports.

**Mr. Henry:** I am just giving you a ready reference, sir.

**Mr. Groos:** You made reference more than once in a certain context to the fact that you did not think it was a very urgent matter that clauses 7 and 8 should be passed as far as Bell Telephone are concerned. I was wondering whether this lack of urgency was in any way connected with the fact that you thought this case might take you that length of time?

**Mr. Henry:** Not really; not really at all. Of course it does have a bearing, but I was not really mentioning it in that context. First of all I did say, if I remember correctly, that Bell must speak for themselves on that. I had merely assumed, because they were saying they wanted the powers clarified and the terminology modernised and, if I understand them correctly, I believe they told the Committee they do not think they are asking for new powers, that some form of a holding action on that particular clause would not be likely to do them very much harm.

Of course, only they can say whether it would. I do not purport to speak for them. I say the same about clause 8, the power to acquire companies, from which I excluded research because I can imagine that perhaps if they have research plans they might wish to move forward immediately on that. But again, they would have to tell you how quickly they find the need to use these new powers.

**Mr. Groos:** Would you say that you are moving as fast as you can now, because this is the time when the evidence is available on this Bell case?

**Mr. Henry:** I am not sure that I understood your point about the evidence, sir.

**Mr. Groos:** I think you said that sometimes you feel you are obliged to divert from other work because the evidence is now available.

**Mr. Henry:** No, I am thinking about a case which is quite different from this. I can say to the Committee that there will be no difficulty in getting evidence from the companies involved here, because I know without even asking the question that the evidence will be available to me as soon as I ask for it, and the witnesses will appear as soon as I ask them to do this.

But in the usual sort of case that turns up on our desks you have to get the evidence by surprise, so to speak, before somebody spirits it away. You have to move while the witnesses have the things in mind that the complainant is talking about. You have to pick up documents that are now current which you think are there, and which may not be there if you go six months later. This could be for no particular improper reason, but it is just that when evidence is what I might call "hot" you should go and pick it up. That is my only point.

**Mr. Groos:** Yes. Perhaps we could get back to this matter of the number of persons you have in your branch. Before I do that could you give me some rough estimate of how their time is divided between giving decisions upon possible merger consultations with companies and the real work of your branch, the other part of the work of your branch, in investigations into the Combines Act?

**Mr. Henry:** You understand sir, that I regard consultations on mergers as part of the real work of our branch. I think it is a very important part of the work because, if I



might put it this way, if a company comes in to see us and says, "we would like to undertake a certain merger", and I say to them, "all right", I will do what has to be a crash program for them, and in the course of a reasonably short time tell them it is indeed all right to proceed with that merger, then they know in the first place that they can undertake it without precipitating an inquiry unless, of course, the facts change and therefore they have advanced the matter and we have as well, because we have already done our homework on that particular case so when the merger comes along we know how to treat it. On the other hand, if I tell them that if they merge I will commence an inquiry, they know what that issue is. In most cases they do not undertake the merger, although there have been some cases when they have done so, and they are perfectly entitled to challenge my view on it. If they do not undertake the merger that is, if you like, a disposition of that particular case in a very short space of time. It is just as effective, much cheaper and much less embarrassing to the parties than if they had done it first and then I started the inquiry and we ended up in the court or before the Commission, and at great expense to both the Crown and the parties before the case is finished. I regard this as a very important and effective part of the work.

• (4:10 p.m.)

The section of the branch of which Mr. Davidson is the Director is the Merger and Monopoly Section and they devote their attention almost exclusively to merger and monopoly problems. We have other sections. We have the Combination Section, which deals with combines, that is, conspiracies in restraint of trade. We have the Trade Practices Section, which deals with such matters as price discrimination and predatory pricing and it handles cases on misleading price advertising, which I am sure you have seen something of, and it also handles resale price maintenance cases. Those are the three sections in the branch which correspond to the broad divisions of the Act.

We also have a legal section in the branch which is responsible for taking over the legal side of the work and advising the other sections in the course of their inquiries. We also have the Research Section, which devotes its attention to what we call research inquiries, which are inquiries that are not designated to lead to the laying of a charge but are

made under section 42. We do not expect to find evidence of an offence but we expect to find a situation which restrains trade which probably should be dealt with and some recommendation made in due course by the Commission.

**Mr. Groos:** So, Mr. Henry, when a case of some urgency comes in, it comes into a certain section of your department and it leaps over everything else in that one section. Other things have to drop back until that one case is dealt with. Is that...

**Mr. Henry:** Until the case is started, yes. It could happen the way you say.

**Mr. Groos:** It is not a matter of diverting those people who deal with merger consultations over to the disbursal cases.

**Mr. Henry:** No. Generally speaking the merger and monopoly people concentrate on that work.

**Mr. Groos:** Perhaps in this Committee we might help you by beefing up that section in your branch which deals with combines cases so that we could get a little more speed out of some of these...

**Mr. Henry:** Yes. That would be quite appropriate. I would like to say, Mr. Groos, if I may, that our problem is not entirely one of having the resources to get the personnel. It is also one of attracting the personnel. You see, we are rather particular about the class of officer that we take into the branch because the work and the implications of what happens are such that we feel we ought to devote the attention of superior officers to the work. It is not just a question of waving a wand and providing us with more funds, or something like that. We need to get access to the people.

**Mr. Groos:** At this point you are not hiring any Bell Telephone lawyers!

I have one further very short question. Are you looking into the matter of subscriber rates across Canada in the various telephone companies?

**Mr. Davidson:** No, Mr. Groos, we are not doing that at the moment. As I tried to suggest earlier, we would be concerned if there was some indication that a change in the procurement methods presently used by Bell might affect the rates, but our problem

is not to determine whether the rates in the Bell system are the same, less or more than the rates elsewhere because we are really concerned with the impact on the state of competition in the supplying industry.

**Mr. Groos:** Thank you, Mr. Chairman.

**Mr. Orlikow:** Mr. Chairman, I would like to begin by pursuing for a moment or two the question that Mr. Groos was dealing with. How many people are presently on staff in your division?

**Mr. Henry:** On our staff, Mr. Orlikow?

**Mr. Orlikow:** Yes.

**Mr. Henry:** We have 101.

**Mr. Orlikow:** You have 101. Could you break that down? How many of them...

**Mr. Henry:** This is our establishment, Mr. Orlikow, and it is not full. We have 42 officers, I think it is, including myself. These are professional people who are working on investigations and handling the preparation of cases in court, assisting counsel, and so forth.

**Mr. Orlikow:** The balance would be secretarial staff?

**Mr. Henry:** Yes. The balance would be the supporting staff; the clerical and secretarial staff, and so on.

**Mr. Orlikow:** Of the 42 officers could you give me some idea—and I have broken it down into three possibilities—how many would be lawyers and how many, if any, would be economists and how many would be statisticians? There may be other classifications.

**Mr. Henry:** Roughly one-third would be lawyers and the other third would be people with an economic background.

**Mr. Orlikow:** What about the other third?

**Mr. Henry:** One-third would be lawyers. At the moment I think we are probably running a little less than that but that is roughly what it has been going over the past...

**Mr. Orlikow:** I think you left out a third.

**Mr. Davidson:** Yes. Roughly one-third are lawyers, one-third are people with an economic background and one-third are people in commerce.

**Mr. Orlikow:** Mr. Henry, I do not know if you can answer this question or not, but it seems to me that the only other country which has the same type of combines law as Canada has is the United States. I was wondering if you have any information on the number of people who are employed by the anti-combines division of the Justice Department in the United States?

**Mr. Henry:** I cannot tell you the exact figures. However, there is no question about it, there is a startling difference. They have a very considerably larger staff than we have.

**Mr. Orlikow:** But they have ten times the population. Do they have more than ten times the staff?

**Mr. Henry:** I cannot tell you offhand but I can easily get that information for you.

**Mr. Orlikow:** I think it might be useful, Mr. Chairman.

As I read your report, Mr. Henry, although you make it clear that you have by no means completed your investigation or inquiry, or whatever you call it, you are certainly recommending some caution on the part of the Committee in terms of passing the entire bill. I think this is quite understandable if one looks at the statement which Mr. Stanfield made in the Nova Scotia legislature in connection with Maritime Telephone, when he pointed out the possibility of Bell taking over that company and that it might well mean they would insist on getting the equipment from Northern and this might mean less competition, and so on. If we were to postpone all or part of passage of this bill—I know you cannot answer for Northern but you can certainly give us an opinion on the basis of your experience—do you think this would affect the ability of Bell in such an important field as research to move ahead as quickly as they feel is necessary?

**Mr. Henry:** It certainly might, depending on their plans. I have suggested that I do not see any particular objection to your allowing under Clause 8 the power to acquire a research company to go ahead. This would not complicate the issue that I have tried to explain, and I do not think their research plans would come into it, so far as I can comment.



• (4:20 p.m.)

So far as other types of acquisitions they might wish to make, I just do not know. I think Bell would have to explain what sort of difficulty this would put them in. All I am really doing is suggesting, for whatever assistance it might be, that in view of the various studies which are going on it might be advisable to devise some polling provision, so to speak, which would not frustrate Bell in any important developments and certainly would not frustrate them in getting their capital for the next ten-year program, which is the major part of their Bill, but to enable some decision to be made on the basis of facts as they emerge and I would say as a result of it to allow the government to consider whether or not some public legislation is required to deal with this and other matters because, after all, if you start attempting to apply the principles that I am talking about to Bell Telephone you ignore the other companies in Western Canada, for example. Therefore, what is needed here is a broad look at communications policy on the part of the government and I would think that a holding operation on this Bill might give them an opportunity to see this and, perhaps, to decide if they wish to do that, Mr. Orlikow.

**Mr. Orlikow:** This morning, Mr. Henry, Mr. Reid was trying to get with your help a definition of a common carrier. I understood from what you said that by your definition Bell would be considered a common carrier in relation to its telephone services. Is that correct?

**Mr. Henry:** Yes, that would be if the term "common carrier" is valid and I think it is. That is correct, Mr. Orlikow. Am I correct that Bell has described itself as a common carrier before this Committee?

**Mr. Orlikow:** I think so. Well, to the extent that Bell is a common carrier for telephone services, its rates are regulated now.

**Mr. Henry:** Yes, sir. That is correct.

**Mr. Orlikow:** It is true, as you and other witnesses have mentioned, that in recent years Bell has gone into the provision of a pretty wide range of services—at least the use of its telephone lines to help provide services such as cable television, the hook-up of computers from one city to another, something similar to the Telex provided by CN, and so on.

**Mr. Henry:** Yes.

**Mr. Orlikow:** Because of Bell's monopoly position which it has as a result of its establishing legislation it is in a pretty preferred position as far as these customers are concerned.

**Mr. Henry:** That is correct as far as we see it.

**Mr. Orlikow:** Is there any regulatory body which has the legal right to make any judgment in any decision on the rates which Bell charges to any of these customers?

**Mr. Henry:** That is in the non-telephone field?

**Mr. Orlikow:** No, in these other fields.

**Mr. Henry:** Yes, the non-telephone fields. No. They are not under regulation. As I have explained those are the non-telephone services; that is, the use of the wires and cables for other than telephone purposes is not subject either to the jurisdiction of the Canadian Transport Commission or the Combines Investigation Act.

**Mr. Orlikow:** Then in these fields the rate is decided on by consultation between Bell and the prospective customer, I presume.

**Mr. Henry:** Yes, that I would understand to be the case. Mr. Orlikow, I would like to just add here because I forgot to do so a moment ago that as far as TWX is concerned they do face competition from the CN/CP system. You understand that.

**Mr. Orlikow:** Yes, I was going to come to that. So, except where there is another possible supplier, like CN/CP telex, the user is in a pretty difficult position in respect to Bell. In other words, Bell can set whatever rates it chooses.

**Mr. Henry:** Yes, but Bell, of course, is having to compete for that particular service, Mr. Orlikow, and while I do not have examples of my own to furnish you, you will recall the DCF brief mentioned some competitive activity which Bell undertook, quite naturally I might say, to see if they could win a particular customer from CN/CP over to the Bell network.

**Mr. Orlikow:** That is exactly the point I am coming to. On page 26 of your brief you refer to the case which DCF referred to in



their brief of the client who wished to connect a computer in one building to a terminal in another building where Bell gave one quotation, apparently assuming that the customer would use Bell's equipment and, when it found out that the customer wanted to use other equipment, gave another. I wonder, Mr. Henry, if Bell did not have the powers it has under the original Act that Parliament passed in setting up Bell, would that be legal?

**Mr. Henry:** If they did not have power to connect this kind of equipment to a system at all then, of course, they would not be doing it. Is that what you mean?

**Mr. Orlikow:** What I am getting at is if this were telephones, if this were a common carrier, they certainly would have to have a rate, would they not?

**Mr. Henry:** Oh, yes. Again, by calling them a common carrier you do not produce that result, Mr. Orlikow, but the concept is I think what you have in mind. If we were to say that Bell ought to be a common carrier for all its services we would say that it should be placed under regulation, not only with respect to the telephone service or, if I can put it this way, to the use of its lines and other facilities for telephone purposes but also in respect of the other services, and that if we adopted the common carrier principle, that would all be subject to the obligation to allow the lines to be used.

In this particular illustration that we are using I think one should think in terms of the lines apart from the equipment on the end of the lines to get what I am driving at. Going back to the other analogy, think of the highway, rather than the vehicles which go on the highway. In that respect, you see, we would then have on the common carrier principle the Bell facility for transmitting the message but with the possibility that any person could use that facility and that if a person wished—this is taking it to the ultimate conclusion—to attach a telephone to it of his own that he could do so.

Now, that produces complications, because I think you could say immediately that if you had a great number of people attaching their own telephones to the Bell network you would have both technical difficulties and economic difficulties—I can say that immediately—but the technical difficulties at

least can be improved by the setting of objective standards for the attachment of equipment to the line. In other words, the equipment must be compatible, whether it is a telephone set, a computer, a TWX machine, or what have you. It must be compatible with the system and this is something you cannot escape from; otherwise you will have technical difficulties and the service will be impaired.

The result is, then, that you could have, if you adopted the full common carrier concept, a situation where under regulation and to use somebody's point this morning, possibly with published rates, the ability of any person to use the lines. That is what the true common carrier principle would be. Now, you add to that the fact that in order to use the lines you have to have the equipment at the end of the lines. In other words, you have to get on and off the highway. In that particular case we say that the public at large and subscribers should have the advantage of the greatest degree of competition that is economically and practically feasible in the market for the production of that equipment.

• (4:30 p.m.)

Now to come back to the CATV, or the computer, if there are choices available in these pieces of equipment then there would be competition among those choices and ultimately whoever used the line would presumably minimize his cost and purchase at the greatest advantage. He might be offered a computer by Bell, and he might be offered one by IBM, but he has a choice. If you do not apply the public-utility, or, at least, the common-carrier principle,—and this is what some of the DCF witnesses are trying to convey to you—Bell Telephone may say, "You cannot use the IBM computers; you must use a Bell computer if you are on our line." That is the point.

**Mr. Orlikow:** If the anti-combines legislation were amended, as I think the Minister has intimated it will, or may be, to include service industries—and that is what Bell is doing—would it then be illegal for Bell to insist that the customer who wants to lease their lines has to use Bell equipment even if he can get other equipment cheaper?

**Mr. Henry:** This is what we call a tying arrangement, Mr. Orlikow. We investigated

tying arrangements in the case of the oil companies a number of years ago. Without attempting to look deeply at the facts, this would be a kind of situation we would at least have seriously to consider investigating if those services were brought into the Combines Investigation Act and not placed under regulation by the Canadian Transport Commission.

**Mr. Orlikow:** Mr. Chairman, I have one more question, and I do not know if Mr. Henry can answer it. We have had reference a number of times in a number of briefs—and you have mentioned it—to the United States court decision separating AT&T from Western. We have not had that kind of decision in Canada?

**Mr. Henry:** That is correct.

**Mr. Orlikow:** In other words, there has been no court order separating Northern from Bell. Is that because our law is different?

**Mr. Henry:** In the first place, we have started an inquiry only recently on this matter and therefore we have not come to the point where this judgment ought to be made by me or by anyone connected...

**Mr. Orlikow:** Pardon me; I am not asking you to express an opinion...

**Mr. Henry:** I know that.

**Mr. Orlikow:** ... on whether we should, or whether it would be good public policy. I am merely asking you if a difference in the law permitted this to be done in the United States and not in Canada, or is it because we have not got around to examining it? What is the real reason?

**Mr. Henry:** Yes; as a matter of fact, there might be. That particular action was brought under the Sherman Act in the United States, and I think I am right in saying that the monopolization provisions—are probably applied more satisfactorily by the courts—that is, from my standpoint—than has been the case in Canada. However, I am bound to say that we probably have not had this precise situation brought before our courts in Canada.

**Mr. Davidson:** I think that is true. I think Mr. Orlikow is asking if there is power under the Combines Investigation Act to order a

divestiture. In a certain situation the answer is that there is power so to order.

**Mr. Orlikow:** Thank you.

**The Vice-Chairman:** Mr. Southam, you are next.

**Mr. Southam:** Thank you, Mr. Chairman.

A number of the questions I had in mind have been rather well covered by Mr. Bell of Saint John-Albert and by other Committee members. However, I notice on page 28 of the brief, Mr. Henry, you say:

I might mention another tendency which may flow from a monopoly position in the market. This is the tendency to delay innovation.

This is quite an important reference, and I would like to refer back to the fact that we have several other telephone companies in Canada, other utilities such as the Manitoba telephone system, the Saskatchewan telephone system, Alberta and B.C. In your study have you, as a matter of looking into the calibre and technical qualities of the systems and equipment in use there, compared them with what Bell is using? Have you gone this far in your investigation?

**Mr. Davidson:** No, we have not, sir. Certainly the question of innovation is an important one in this area, and because certain allegations, even if informal, have been made, to the effect that the monopoly position of Bell has permitted a slow rate of introduction of innovations, this is one thing that we will have to look at.

**Mr. Southam:** This is the conclusion that I also had come to. Of course, in doing this you would also, I presume, compare the cost of the services on a comparative basis so far as the rate structures are concerned—or would you?

**Mr. Davidson:** No, I think not; because our concern is basically with the supporting industry which produces the equipment. The only reason for our concerning ourselves with the service would be to try to determine whether any other arrangements in the procurement system might detrimentally affect the service. If the service might be detrimentally affected by some change in the supply of equipment, then one would certainly have to consider that very carefully.



**Mr. Southam:** I feel that the most interesting and pertinent feature of Mr. Henry's brief is the fact that he, in his capacity as Director of Investigation and Research under the Combines Investigation Act, now has an investigation under way regarding the telephone company and its subsidiaries. To me this puts a whole new light on the hearings of this Committee up to date. As I say, this is very pertinent information and it is my opinion—and I would like to be corrected on this, although it is in the form of a question—that any action taken, or recommendation made by this Committee to the House while this investigation is under way would, in effect, be more or less abortive at the present time, in view of the fact of this investigation. You say at the top of page 16:

Moreover, I intend to use the evidence and submissions before this Committee to assist me in the inquiry.

Therefore, it follows that you have not completed your enquiry, and you would not want to do so until we had made a complete investigation. It seems to me that we have, to some degree, to wait for the determination of your inquiry. Is this right?

**Mr. Henry:** Mr. Southam, I suppose the answer is yes, if that is what the attitude of the Committee turns out to be. I merely indicated that the information which is being given to this Committee is being followed by us because it is useful to us in our inquiry. It has given us a number of things that we can look at by way of examples, and some indication of where we may turn for evidence.

For example, the illustrations given by DCF and by Industrial Wire & Cable Co. Limited, and so forth, are not, to me, evidence at this stage. They are subject to verification in a formal way before I will accept them. That is why I am rather guarded in how I use them.

The point is that the work of this Committee is a very useful piece of assistance to us. Whether you should wait for us ultimately to complete our inquiry is something on which I do not feel that I ought to comment, because you have your problem of how to deal with the Bill. However, I have suggested that there are certain aspects of the Bill which, if you are concerned by what I have said, you could defer until some other time, I would hope without doing anything which might truly embarrass the company. At the same

time there are other areas where you could proceed and allow them to obtain what they require most urgently in the way of financing.

• (4:40 p.m.)

**Mr. Southam:** I can quite well appreciate your point of view, Mr. Henry, but on the other hand, as a member of the Committee, looking over the Bill and relating it to what we have heard from you today and other witnesses, I feel that all the clauses are pretty well interrelated and the fact that a precedent has been created here by what you have introduced as evidence today, that you have this investigation under way, is a very, very important thing, a very interesting thing and I think a very helpful thing. I think that would be all I have to say at the moment, Mr. Chairman.

**Mr. Sherman:** May I ask a supplementary question, Mr. Chairman?

**The Chairman:** Yes, Mr. Sherman.

**Mr. Sherman:** May I ask Mr. Henry whether, if the various organizations and groups that have been appearing before this Committee in connection with this particular Bill had not been appearing before this Committee, if they had not been called, whether his branch would have taken the initiative to go out to talk to such representatives of the whole spectrum of the business community and seek out this information for themselves.

**Mr. Henry:** Yes, Mr. Sherman. We, of course, have our way of going about these inquiries and in all our inquiries we go as far as we can in the direction of finding evidence. In the case of an inquiry into this particular industry, it may well be that as the inquiry progresses the Restrictive Trade Practices Commission might consider that it should be held in public. I do not know. This is a matter which I have nothing whatever to do with, but if it became difficult to find sources of information it may be that the Chairman of the Commission who has this choice would declare that the inquiry ought to be held in public, in which case people at large could be invited to come to give their evidence under oath in the same way as people have come here to this Committee. So there is that possibility and, of course, I do not know how that will turn out in the



result. However, be that as it may, we would pursue all sources available to us until we were satisfied we had obtained all the evidence that might be useful.

[Translation]

**Mr. Émard:** Mr. Chairman, I would like to begin with a question to Mr. Henry. Do you not think that by imposing limits on the activities of Canadian corporations such as The Bell Telephone Company, for the sake of free enterprise, you are then encouraging the multiplication of subsidiaries to large foreign firms?

[English]

**Mr. Davidson:** If I understood the question correctly, it was whether or not, by imposing these limits on Bell Telephone, we are opening the way to the intervention by or growth of foreign corporations. It seems to me that this really raises two questions. One is that if Northern Electric is efficient, as Northern thinks it is and as we think it is, it should be able to win business under ordinary circumstances against other competitors.

If for some reason there is an advantage to foreign companies, unrelated to their efficiency in selling in the Canadian market—if they are dumping, or if they are trying to tie up captive markets—then that really is the problem. Therefore it seems to me that if there is concern about foreign companies taking over Canadian business the best answer is the direct answer to eliminate any unfair advantages they have or, if it becomes the will of Parliament, to limit the amount of foreign participation directly. There is precedent in other countries, for example, for insisting that certain companies in communications be domestically owned.

[Translation]

**Mr. Émard:** But I was thinking of The Bell Telephone Company, not Northern Electric. It was said here on many occasions that we wanted to limit Bell Telephone to a common carrier enterprise. You are well aware that with all the changes introduced today, the modern inventions in communications, if Bell Canada were limited to the telephone alone, I believe all these new inventions would come from the United States instead of being produced eventually in Canada.

[English]

**Mr. Davidson:** I do not think there was any basic argument that Bell should be limited simply to the telephone market. The main argument that Mr. Henry has been making about Bell's electronic highways is that it alone should not have the power to determine what is to be used in association with those highways. That is not to say that it should not provide equipment that may be used with the highways, but that it should not be able to foreclose the market for these associated pieces of equipment to competing companies.

[Translation]

**Mr. Émard:** But I was thinking of The Bell petition is, I would not say unfair, but very difficult for the Canadian firms. We Canadians are trying by all means to recover control of our own economy. There are very few Canadian firms strong enough to compete with large American subsidiaries. The Bell Telephone Company is precisely a firm which is strong enough to compete with American companies. Should we then restrain its activities?

[English]

**Mr. Davidson:** Certainly it is an indirect and probably inefficient way to solve this problem by encouraging the growth of Canadian monopoly. If Canadian companies require some assistance in order to be able to compete with foreign producers, it makes better sense to me to give them the assistance they require. In that way you can tell how much this assistance is costing you, you can see that it is used for the purposes you have in mind whereas, if you use the very indirect method of encouraging the growth of monopoly, you do not know how much the cost is and you do not know how much of that cost is applied to the particular work you had in mind.

[Translation]

**Mr. Émard:** In answer to a question asked by Mr. Bell this morning, Mr. MacDonald, you seemed to want to say that the American government had rendered a judgment by which it forbade Western Electric to sell outside of the Bell system. Is it not true that after an inquiry which lasted seven years, the United States government and AT & T

came to an agreement, which we recognize as Consent Decree which precisely limits the sale of Western Electric products to the Bell system?

[English]

**Mr. Davidson:** Yes, that is more accurate. I am sorry; that is more accurate.

[Translation]

**Mr. Émard:** There is one thing which we have to take into account, I believe, it is that in the case of Western Electric this company can sell to the Bell system which is much larger and covers a much wider field than Bell Telephone here in Canada. Thus, what may be done in the United States, may not be very practical here in Canada.

[English]

**Mr. Davidson:** I quite agree. I do not think any such solution would be appropriate to the Canadian situation.

[Translation]

**Mr. Émard:** I would like to know your point of view, because this was suggested, as you know, in the briefs which were submitted here. Now, on page 13 of your brief, you say:

[English]

I should add that the inquiry was formally commenced in November 1966.

● (4:50 p.m.)

[Translation]

Did your inquiry begin after or prior to the introduction of the Bill concerning The Bell Telephone Company of Canada to the House?

[English]

**Mr. Davidson:** I have forgotten exactly when the Bill was first introduced in Parliament but our preliminary enquiry had started quite some time before that and the formal enquiry began in November 1966. I have forgotten whether the actual date of the formal enquiry preceded or followed the introduction of the Bell Bill.

[Translation]

**Mr. Émard:** Mr. Orlikow has said previously that you have completed your enquiry, and have decided to recommend to the Committee that the acceptance of clauses 7 and 8 be referred back to the House. Is it wise on

your part to adopt an attitude while relying on facts which have not been necessarily verified?

[English]

**Mr. Henry:** I am not sure from my point of view, Mr. Émard, that I can say that anything has yet been proved. I quite agree. That is the point that I have tried to make several times in the course of today's meetings. I am simply suggesting, if the Committee is impressed by the fact that some work is being done in this field, particularly through our enquiry, that if the factors I have tried to explain have put me on my guard and have also tended to put the Committee on its guard, perhaps a way to deal with the bill before the House is to defer a final decision on those aspects that I have mentioned which seem to be in a state of doubt or which give cause for concern. I am not suggesting a final judgment because I quite agree that we do not know all the facts. I am suggesting the Committee could adopt what I might call a holding action. I am not really asking the Committee to do it, I am simply saying that this is the device that could be used and perhaps you might wish to consider it.

[Translation]

**Mr. Émard:** Something has struck me all the same. Mr. Orlikow said that you had completed your enquiry and that you had decided to recommend to the Committee that the acceptance of clauses 7 and 8 be reported back to the House. You did not contradict Mr. Orlikow when he said that you had completed your enquiry and that it was based on the facts submitted there.

[English]

**Mr. Davidson:** That was a misunderstanding then, sir, because we had certainly not completed the enquiry.

**Mr. Henry:** Yes, that is true. It is in my brief, Mr. Émard, but at the top of page 13 I should add that the enquiry was formally commenced in November 1966 and can be regarded as only in its preliminary stages.

When I spoke of the possibility of the Committee finding a way out by deferring some part of the Bill, you will recall I did say with respect to clause 8 that I did not think that the power to acquire companies



for research caused any particular difficulty in the areas I have mentioned. With respect to clause 7 I said that if the new wording does not in fact extend the legal powers of the Bell Company there is of course no issue; but if as a matter of legal interpretation it does, then I suggested the Committee might not wish to send that clause forward without giving it very careful thought because if it does extend the powers the Committee would wish to consider those implications. As I suggested, it may be that an interpretation by a legal adviser should be obtained on the effect of that clause.

[Translation]

**Mr. Émard:** According to you, does The Bell Telephone Company of Canada outride its powers when it enters into the field of communications by satellites?

[English]

**Mr. Henry:** Mr. Émard, perhaps I should say I am not going to purport to give a legal opinion. The satellite factor in the communications system is just one more route on the highway that we have been talking about. I hope somebody will correct me if I am technically wrong about this but, as I see it, you have different routes on the electronic highway. You have the ordinary telephone line, the microwave and then whatever technological arrangements you may have, and finally you have the satellite. The satellite is merely a superhighway or auto route on the whole highway network and it would appear to me perfectly appropriate for the Bell Telephone to use the satellite system if this is the technological route to be followed.

[Translation]

**Mr. Émard:** If I refer to your decision to delay application of clauses 7 and 8 for a period of approximately two years, and in reading the Consent Decree concerning the Western Electric Company and the United States government, I wonder what will happen. In fact I notice that the complaint was made in January, 1949 and that the Decree is dated January, 1956. According to you, is it possible for your Department to complete this enquiry within approximately two years?

[English]

**Mr. Henry:** Mr. Chairman, in answer to Mr. Émard, the best I can say is that I hope we can do so. I do not know whether we can

conclude the enquiry and also take any subsequent step, such as the report of the Restrictive Trade Practices Commission, within that time. I have learned through some years of experience that it is quite dangerous to try to be too definite about a date when an enquiry will be concluded. I am afraid I have made the best estimate I can on the timing.

[Translation]

**Mr. Émard:** If we were to suspend the application of clauses 7 and 8, would not The Bell Telephone Company of Canada be in financial difficulty? In fact, the investors, according to me, would not dare invest any money in a company which will have no opportunity of progressing. This would create a certain fear among the investors.

[English]

**Mr. Henry:** Mr. Émard, I should not have thought that deferring one or two aspects of the Bill until further consideration is given would have entirely that result but the best I can say is that I think Bell Telephone is the proper party to make a judgment on what it will actually do so far as their internal problems are concerned. I think it really would be impertinent of me to try to suggest how it would affect them internally.

[Translation]

**Mr. Émard:** Mr. Henry, you know that if we ask that of the representatives of The Bell Telephone Company of Canada they will certainly agree.

[English]

**Mr. Henry:** If I gave a brief answer by saying "No," I would be irresponsible in doing so.

[Translation]

**Mr. Émard:** If we consider the progress brought about by modern technology, do you think it would be practical to separate the telephone from other forms of communication, as was previously suggested in other briefs?

● (5:00 p.m.)

[English]

**Mr. Henry:** No. I think that the electronic highway is capable of carrying transmissions other than telephone conversations, and that



it would be very uneconomical not to make use of that capacity.

[Translation]

**Mr. Émard:** Could you tell me who regulates the CATV at the present time? I know that DOT issues the licence. Who implements the regulations?

[English]

**Mr. Davidson:** Our understanding at the present time is that this is not regulated, but, if I am not wrong, that consideration has been given by the Board of Broadcast Governors to regulating it.

**An hon. Member:** Within the Broadcasting Act?

**Mr. Davidson:** Yes.

**Mr. Émard:** Not for regulation.

**Mr. Reid:** Under the proposed clause in the Broadcasting Act it would come under the CRC.

**Mr. Davidson:** Not the present clause, no.

[Translation]

**Mr. Émard:** Can the objectives of the Department of Industry be completely reconciled with those of the Combines Investigation Act?

**Mr. Henry:** That is a joke.

[English]

**Mr. Davidson:** We think they can. There is one area where there would appear to be possible conflict. That is where, because of technology and the need for the large scale of production that we cannot handle in Canada, there are not enough firms of sufficient size to provide effective competition. This would appear to create a conflict. In order to be of a sufficiently large size to achieve efficient scale, we do not have enough companies to provide effective competition. However, that need not cause a conflict, because a possible remedy would be to make sure that import competition, or potential import competition, restrain any possibility of abuse by the small number of Canadian producers.

[Translation]

**Mr. Émard:** Mr. Chairman, in order to please you and before you ask me, I shall now let someone else speak, but I would like to continue later on.

**The Vice-Chairman:** Thank you, Mr. Émard.

[English]

**Mr. Rock:** Mr. Henry, on page 5 of your brief you say

The Combines Investigation Act places restraints on three types of activity... and you list...

**The Vice-Chairman:** Mr. Rock, will you please sit closer to the microphone?

**Mr. Rock:** You list the three in (a), (b) and (c). Just a short while ago we had a joint committee on consumer prices. There was a great deal of evidence at those hearings about soap prices and the ten cents off, and such things. This is covered in (c) which says:

Unfair trade practices including price discrimination, predatory pricing, certain promotional allowances, misrepresentation of the regular price and resale price maintenance.

After all the evidence that was heard before that committee, what action has your group taken against the companies involved? Have you taken any action to investigate them?

**Mr. Henry:** Of course, the answer is that we have continuing inquiries of that kind going on, falling within the provisions of the Act that you have mentioned. The results of these inquiries are continually reported in my annual report. I cannot think of any specific inquiry we have in progress in which we have taken any action based on evidence that was brought before that Committee. However, we certainly have inquiries and enforcement arising out of situations to which that evidence relates by way of example.

**Mr. Rock:** You are not using any of this evidence at all?

**Mr. Henry:** Not necessarily; because, you see, that material comes to us generally directly in the form of complaints from the people concerned. The situations are very familiar to us, but what we are actually investigating is what has been referred to us in most cases by persons who have complained. That is how we receive the first information about matters falling within the trade practices provisions to which you have referred.

**Mr. Rock:** One was a big biscuit company, Christies' or Westons, and we found this to be a very great monopoly. Are you doing anything with respect to that company? Are you investigating it?

**Mr. Henry:** As I said in my last annual report, we are quite aware of the situation in the so-called Weston empire.

I also referred to a situation in which we had an inquiry going into concentration in the food industry several years ago, and which I described briefly in my annual report several years ago. It said that after some two years of inquiry we had decided that the state of concentration did not give cause for alarm from the standpoint of what is provided for in the Combines Act. Therefore, we discontinued that at the time. That is the way that matter stands.

It is my duty, under the Combines Act, to start an inquiry any time I think that an offence against the Combines Act has been committed, and I will do so if that is the view that I reach with respect to the Weston group. However, I feel bound to say that the matter must rest as it has in my current annual report.

**Mr. Rock:** You said that the investigation was not caused by the evidence before this Committee but because there had been complaints from people?

**Mr. Henry:** On those particular provisions, sir, yes; because, as I explained to you, in the monopoly area that we are talking about there was no specific complaint that I can recall receiving that caused me to start the Bell Telephone inquiry.

**Mr. Rock:** Yes, I see. You formally started this inquiry into Bell in November, 1966. This, of course, was I believe, a little after Bell presented their Bill. Who were the parties who made the complaints, or who initiated this?

**Mr. Henry:** I initiated it myself, sir.

If I may say so, I feel bound to take the position—and I hope the Committee will support me on it—that I ought not to reveal any particular information concerning the inquiry. I have disclosed the inquiry, which is a most unusual procedure, as I explained; it is not normally done. I have explained, for public understanding, why I have done it,

because I think it is essential that the Committee should have that information. I do ask you, however, to maintain our position that the inquiry must be pursued in private, unless the Chairman of the Restrictive Trade Practices Commission orders it to be pursued in public, and that I ought not to be asked to give any detail in connection with the inquiry. In fairness to all those...

**Mr. Rock:** Talking of fairness, do you feel that it was fair for you to make this statement and to put this in your brief? Do you not feel that you may have created a sort of prejudice, or that the public may somehow feel that you are condemning a company before it is found guilty? This is how it strikes me at the moment. I cannot speak for other members, but I somehow feel that you have not proven them guilty; that you are merely investigating to find out whether there may be some cause; and that you are warning us to retard certain clauses of this Bill on your hearsay. Personally, I cannot see how you can come in front of this Committee and make statements such as this and quoting in your brief the evidence of these three companies, for instance. Even these companies that you mentioned, the evidence is not evidence; it is just a brief that they presented to us. Did you read the briefs of Industrial Wire and Cable, the DCF and the Northern briefs or did you read the Minutes of our Committee meetings before you prepared your brief?

● (5:10 p.m.)

**Mr. Henry:** Both, Mr. Rock.

**Mr. Rock:** And you still wrote this in this manner, without taking into consideration the questions that were asked and the manner in which they were answered and the demolishing, sometimes, of some of their statements?

**Mr. Henry:** Mr. Rock, I have taken some care to explain that I do not consider what has been given in the briefs as evidence for my purposes and I thought I had made it very plain that I was simply using these as examples of what can happen. I have said that for my purposes this would have to be verified. These statements were made in public in this Committee and I use them as illustrations and that is all I am doing.

As to your major question, may I answer it? I understand precisely the point you are



making and I had a difficult decision to make here, whether I should dispose of this inquiry. I thought about it very carefully and you will see that I have indicated that what I am doing is a departure from the usual rule and I can only say that I have tried to explain that because a combines enquiry is in progress does not mean that the companies are guilty of anything or that anything is wrong. We are simply trying to ascertain facts but I know that some people read more into that than they should.

It seems to me as I said in my statement that the greater public interest at this particular time is that the members of the House of Commons and this Committee should know, before they make a decision, that the enquiry is in progress. I think they would have thought that they were being deprived of pertinent information of an important kind, if I had not decided to disclose it to them. That is the way I look at it.

**Mr. Rock:** Mr. Henry, how many hearings, if any, did you have since a year ago? It is over a year since you started this enquiry...

**Mr. Henry:** Yes, that is so. There have been no hearings at all as yet.

**Mr. Rock:** Well, how much evidence have you compiled in a year?

**Mr. Henry:** I am not trying to evade an answer on this but I think I ought, Mr. Rock, to hold to the position that I ought not to disclose any details about the inquiry. We have started the job, I have told you that...

**Mr. Rock:** Let me put it the other way then. Was your enquiry a continuous enquiry or did you just launch it, say, last November and you have not done anything until just lately?

**Mr. Henry:** How would you answer that? Mr. Davidson, of course, is directly in charge of the enquiry. Perhaps he would answer that.

**Mr. Davidson:** It is continuing, Mr. Rock, with the full time of the people that we are able to assign to it.

**Mr. Rock:** With the pressures that there are right now so that Bell will not get the powers that they are getting from certain wire companies, do you feel there is a chance there also may be a monopolistic conspiracy

in the opposite direction to wrench the Northern complex from the control of Bell Telephone in order that these shares will be resold to other people who own other wire companies? Are you, by any chance, looking into this possibility? We are talking about monopolies now.

**Mr. Davidson:** We would if we saw any evidence probably, but we have not seen any evidence of that, Mr. Rock.

**Mr. Rock:** Did you know that the people who are actually coming here are sort of competitors to Bell's ownership of Northern and, of course, DCF who are consulting engineers, not manufacturers, but they feel that somehow they are not doing the amount of work they would do if Bell did not have the powers they have at the moment.

**Mr. Henry:** Mr. Rock, it is a situation we are quite familiar with, I might say. In practically every inquiry, there are two sides as far as the parties are concerned and we are quite familiar with the fact that the Combines Act is sometimes used as a weapon in the process of competition by one competitor against another.

**Mr. Rock:** In answering questions from Mr. Orlikow about CATV somehow I got the impression that you feel that the Bell Telephone wires are used for CATV and this is not so. The CATV have their own wire just on Bell poles. I want this clarified here.

**Mr. Davidson:** Let me put it this way; one of the complaints that we had before the inquiry got started was from a CATV operator who was not able, according to the submission he made to us, to buy any cable but Northern's if he expected to use the telephone poles.

**Mr. Rock:** Are you aware that any CATV company has to ask permission of the municipality before they are allowed to operate in that municipality, and then they usually arrange with either the Hydro people or the Bell people, or they can provide their own service underground or wherever they want. They have this right, too, if the municipality gives them permission. Are you aware of this?

**Mr. Davidson:** Yes, we are aware of it but the third is not really a realistic alternative because few municipalities, certainly in the



downtown area, are likely to want to see their streets ripped up to permit the use of new cables.

**Mr. Rock:** Are you aware, though, that sometimes there are two CATV companies in the same district?

**Mr. Davidson:** Yes.

**Mr. Rock:** Some using the front hydro poles and others using the rear Bell Telephone poles?

**Mr. Davidson:** Yes.

**Mr. Rock:** And there are others also in the centre of Montreal that string the cable from building to building rather than using any of the poles, so they are not using the services of either Bell or Hydro.

**Mr. Davidson:** No. They would have to get some kind of authority to cross city streets though.

**Mr. Rock:** The first permission they get is from the municipality and then they tell the municipality how they are going to instal their service. Sometimes, rather than pay Bell or Hydro, if they can use buildings and have their cables go on buildings in the rear, they do that also. So they are not obliged always, in every sector, to use one or the other.

You were mentioned before, Mr. Henry, your concern about northern selling on the export market for prices that are possibly less than these on the home market. I hope you are taking into consideration that the export has not got the 11 per cent or 12 per cent tax while we, the consumers at home, are obliged to pay this tax and that is included in the price plus.

**Mr. Henry:** Mr. Rock, I also said that I was not suggesting Northern was, in fact, doing this. I said that sometimes in an export market you do have a two-price system with the export price being lower than the domestic price. This is a fact. But I am not attributing it to Northern because I do not actually know what the fact is.

**Mr. Rock:** I have objected previously to using the words "common carrier" and I asked you to find that word in the regulations but you have not found the words "common carrier".

**Mr. Henry:** That is true, Mr. Rock, because I do not think it is used in the regulations. The idea arose earlier in the proceedings of this Committee and it is an attractive and handy expression, which certainly has some legal connotations in common law, to use in making examples because it rather defines the bundle of rights and liabilities that I think some members of the Committee and some witnesses have been talking about. It was Mr. de Grandpré from Bell Telephone who used this expression on Page 72 of the proceedings of October 19. He said:

We do not intend to be anything but excellent common carriers. That is what we intended to be; that is what we have said in the past and that is what we intend to do in the future. However, we want to provide the best common carrier services that Canadians desire if they want to keep communications flowing...

And so on. I hope I am not taking Mr. de Grandpré's words out of context and I am only doing this to illustrate that he used the phrase in connection with Bell Telephone's business.

• (5:20 p.m.)

**Mr. Rock:** Do you feel that Bell Telephone as well as Northern should use the whole capability of their manpower to its fullest extent? I mean by this that at times they may only have the manpower for certain aspects of their business but if they enter into something else they will use their full potential. In the present case if they did so they could also make a profit for their shareholders and possibly a saving for the subscribers at the same time.

**Mr. Henry:** I think we should have Mr. Davidson's economic expertise on this. It is a lack of business or management judgment.

**Mr. Davidson:** I think this is the efficient way to do things but there is a parallel, if you like, with a company in a manufacturing business that says, "We are producing a thousand units; we can easily produce one more unit and the marginal cost of that extra unit will be very little. Let us sell that in some market." If that happens from time to time I do not think it creates any problem. However, if the result of this is to drive a competitor to the wall this raises another question. In the example I used I think you would be concerned about that. When Bell is only fully utilizing the facilities it has and is

not enjoying any advantage because of a captive market or otherwise, there is no reason they should not be encouraged to do that.

**The Vice-Chairman:** Mr. Rock, I hate to be unpleasant but...

**Mr. Rock:** I have one more question.

**The Vice-Chairman:** ...there are four other members who would also like to speak. It is now half past five and I think I have been very, very patient with you. You have had the floor for the last half hour. I think you should give another member a chance. Mr. Cantelon?

**Mr. Bell (Saint John-Albert):** Mr. Chairman, may I be permitted to make one interruption. I think it is rather unfair to take Mr. de Grandpré's remarks in the way which Mr. Henry did because I recall reading that part and I think he meant more that they did not want these extra powers to go into other activities. The common carrier reference was really secondary in his mind at the time. He may have to live with it and we can question him again, but I felt it was more an answer to a question about these extra powers than emphasis on the common carrier. I merely mention that to be fair to Bell. That is all I have to say.

**Mr. Henry:** Yes. I said I was not sure whether or not I might be taking this out of context. I did not have time to see whether I was or not, but I quite accept what you say.

**The Vice-Chairman:** Mr. Cantelon.

**Mr. Cantelon:** I certainly will be brief because, as Mr. Southam mentioned a while ago, his questions have been pretty well asked and so mine have as well.

I was rather concerned about whether you felt you had sufficient power under the Combines Investigation Act, but I think you have pretty well given us an answer to that. I was had enough personnel, and Mr. Groos thoroughly exhausted that problem and I think you answered quite adequately.

I just have one further point in my mind. I noticed that you mentioned the Sherman Anti-Trust Act in the United States, and that makes me curious to know what a comparison between the responsibilities and the capacity to discharge those responsibilities

would be between the United States situation and the situation in Canada. That is a horrible question. I do not know whether you can handle it all or not.

**Mr. Allmand:** Mr. Chairman...

**The Vice-Chairman:** Just a minute, Mr. Allmand.

**Mr. Allmand:** This is on a point of order. I wonder if we are examining the Combines Investigation Act or if our questions are supposed to be relevant to the bill. I sat here this afternoon and listened to a lot of questions that I thought were very interesting, but they were irrelevant to the study we are making. If we are going to re-examine our combines investigation laws we could do that at another time.

**Mr. Cantelon:** Mr. Chairman, I have a further question which I think will tie it together.

**Mr. Allmand:** I know there are other people waiting to ask questions but I thought possibly we could get back to the subject. I am not just against Mr. Cantelon.

**Mr. Cantelon:** I realize that but I have one final question which might tie in the comparison.

**The Vice-Chairman:** Are you finished, Mr. Cantelon?

**Mr. Cantelon:** Yes.

**The Vice-Chairman:** Mr. Howe?

**Mr. Cantelon:** Oh, I did not get an answer. I was hoping I would get some kind of an answer.

**Mr. Henry:** Do you wish me to go ahead on that?

**The Vice-Chairman:** You do not have to.

**Mr. Henry:** I was not quite clear on the question. Was Mr. Cantelon asking whose responsibility is it in Canada and in the United States to enforce our respective laws, or was he asking if there is any difference between them?

**Mr. Cantelon:** I was really asking what the essential difference is between them. They are more efficient. I am trying to find out.

**Mr. Henry:** To put the matter in a nutshell and be as brief as possible, I think it is fair



to say that the courts in the United States, in the course of developing their jurisprudence, have tended to apply the laws to more situations than the courts in Canada have done in respect of the Combines Investigation Act. This is particularly true in the field of mergers, where the courts will deal with the concentration of industry and enforce the law to break up a merger or to disallow a merger at a far earlier stage of concentration than our courts. There have been no successful merger cases in Canadian courts. The accused has been acquitted in each case. There is therefore a distinct difference in the application of the laws in Canada and the United States. In so far as the conspiracy laws are concerned the general principle is much the same in both jurisdictions.

**Mr. Cantelon:** Am I right in suggesting that it is under this conspiracy part that you are now investigating the situation with Bell and Northern?

**Mr. Henry:** Not really, Mr. Cantelon. In this particular case it is under the monopoly provisions of the Act. Perhaps it would be better if I said that as far as we know at this stage of the inquiry it is the monopoly type of provision in the Act that is most applicable in Canada at the moment.

**Mr. Cantelon:** In that event the cases that DCF presented would not be considered conspiracy, they would be considered monopoly?

**Mr. Henry:** If the DCF cases turned out to be a correct representations of the facts, which we of course would have to establish in due course, it would be an aspect of the exercise of monopoly power by Bell Telephone, yes.

**Mr. Cantelon:** Thank you.

**The Vice-Chairman:** Mr. Howe?

**Mr. Howe (Wellington-Huron):** Mr. Chairman, I just have a couple of questions to ask the witness. One of them arises out of some of the questioning by Mr. Bell this morning and by Mr. Deachman this afternoon concerning the bigness of corporations or companies in certain fields. You said that bigness was not always an indication of efficiency or of the best product in the marketplace. However, in the field of communications, which has become so sophisticated and so technical, do you not think that this is a field

where you have to have a company or a corporation that has tremendous financial resources to go into the type of research that is necessary to keep Canada in the forefront or to keep up with the other nations of the world with regard to this type of communication?

• (5:30 p.m.)

**Mr. Henry:** Yes, I personally think this is so. When we talk about bigness, of course this is a relevant matter, and all I was saying was that bigness by itself does not produce efficiency or goodness, nor is bigness necessarily badness—and I would like to emphasize that. I might ask Mr. Davidson to comment further because this is an economic concept.

**Mr. Davidson:** I think that it is dangerous to generalize too much. With sophisticated communications equipment I think everything points to the need for a large company, with large financial and research facilities, in order to keep in the forefront. Undoubtedly, some of Northern Electric's products do not require great size, and it appears that the wire and cable aspect of their business is one of these. At least in the power cable part of it a company the size of Industrial Wire & Cable Co. Limited apparently are able to compete on equal footing with Northern Electric.

It seems to me that one cannot generalize; one has to look at the kind of industry about which you wish to make a judgment. You cannot *a priori* say that this is an area where you have to be big. You have to look at the particular industry. From what I have seen it appears that you do have to do this in the communications field.

**Mr. Howe (Wellington-Huron):** I have one other question, Mr. Chairman, which arises from other questions asked this afternoon in connection with innovations. I notice that you use the example that DCF used with regard to the fear that Bell may have lagged in keeping up to date. If in your examination you find that Bell is lagging in this field what steps can you take to see that they do provide the best communications service for the people of Canada?

**Mr. Davidson:** I think there is only one possibility of our doing anything and that is to see if the reason is a lack of competition. If the restraints on competition are such that they can be reached by the Combines Inves-



tigation Act then it would be our obligation to try to reach them with the powers available in the Combines Investigation Act.

**Mr. Howe (Wellington-Huron):** This would not solve the problem of their lagging in certain fields in producing communications for the people of Canada.

**Mr. Davidson:** It might if the reason for the lag is that a spur is missing. Presumably most businesses are influenced both by tariffs and profits and by the stick of competition. If the stick is missing something possibly might be done about it.

**Mr. Howe (Wellington-Huron):** In other words, there should be a stick ...

**Mr. Davidson:** This is true. This is only a statement that has been made. It may or may not have any bearing.

**Mr. Howe (Wellington-Huron):** You used that phrase in your brief so you must have thought there was something in it.

**Mr. Davidson:** I think, Mr. Howe, one of the attributes of monopoly that is not infrequently found is an inclination to lead the quiet life. Whether this is applicable here or not, it can sort of illustrate this attribute which sometimes is found with monopoly situations.

**Mr. Howe (Wellington-Huron):** Do you intend to go into this in your examination?

**Mr. Davidson:** Since this particular allegation has been made I think it is probably necessary to see to what extent it and the other allegations that were made before this Committee are sound.

**Mr. Howe (Wellington-Huron):** Thank you, Mr. Chairman.

**Mr. Sherman:** Thank you, Mr. Chairman. Like Mr. Rock, Mr. Henry and gentlemen, I find my curiosity piqued by the fact that at this stage of this Committee's deliberations on this proposed legislation the Combines Branch should suddenly insinuate itself into the proceedings. I do not know which side I am on in the dispute. Philosophically I am not on the same side of the House as Mr. Rock.

**The Vice-Chairman:** Mr. Sherman, I would point out to you that they were asked by the Committee to come here.

**Mr. Sherman:** I appreciate that, Mr. Chairman, but I think the circumstances leading up to their appearance here give rise to some interesting questions. I may have missed some earlier questions. Due to the conflict of another committee meeting I was not able to be present at the start of this hearing. I apologize if I am going over ground that has already been covered—but I would like to ask one or two brief questions—before today's sitting winds up.

I would like to ask Mr. Henry whether or not the Combines Investigation Branch normally notifies a party that it is going to undertake an investigation of its activities?

**Mr. Henry:** Yes, that is the normal procedure, sir. Normally, when we start an inquiry the first person to know about it is the party into whom we are inquiring.

**Mr. Sherman:** Could you sketch the procedure by which that notification is undertaken?

**Mr. Henry:** In the ordinary case?

**Mr. Sherman:** Yes.

**Mr. Henry:** The way an inquiry proceeds is roughly this. A complaint is received because most inquiries do, as I have said, start on the basis of a complaint of an informal kind from somebody. The complaint is examined to see whether there are preliminary facts which give rise to the necessity for an inquiry because whether or not there should be an inquiry is a matter of my carrying out a statutory obligation. If I have reason to believe there has been an offence I must start the inquiry.

A certain amount of preliminary work is then done in order to determine whether I have the required reason to believe. If I come to the conclusion that there is reason to believe that there is an offence then I start formal proceedings.

Formal proceedings may be taken in several ways but the usual first step is to obtain documentary evidence wherever such evidence appears likely to be, and this may mean going to the offices of one or a number of companies and obtaining documents from them under an order which is made in formal terms under the authority of the Combines Investigation Act. After that it is usual to call witnesses who are likely to be able to give evidence that is relevant to the inquiry.

Another technique that is used is to send out a questionnaire and those to whom it is addressed are required by statute to answer under oath with an affidavit.

So these different techniques are employed and ultimately at the end of the inquiry you have a formal record with usually a fair amount of evidence on it—sometimes a very great deal of evidence—which then must be assembled in the form of a statement of evidence if the case is to go to the Restrictive Trade Practices Commission. Once it goes to the Commission—and I have explained that the parties appear there as well as the Director's representative—the case is argued on an adversary basis before the Commission and then the Commission writes its report and delivers it to the Minister. As I said this morning, proceedings need not go to the Commission; they could go directly to the courts, in which case those latter steps do not take place.

In capsule form, that is the way the inquiry takes place, Mr. Sherman.

**Mr. Davidson:** I think there was just one step that Mr. Henry overlooked. Before obtaining an order permitting the representatives of the Director to visit premises of the company you must apply to the Restrictive Trade Practices Commission to obtain the endorsement.

**Mr. Sherman:** Thank you, Mr. Henry and Mr. Davidson. Before I go on to my next question just let me say for the record, Mr. Chairman, that I would like to correct the terminology or phraseology in my opening remarks where I suggested that the Combines Investigations Branch insinuated itself into the deliberations, I will strike that and say it was invited to participate in these deliberations. I still find it a curious situation, as a member of the Committee, but that is something that we can discuss perhaps on an in camera basis in the Committee itself. Proceeding from the answer that you gave me, Mr. Henry, which I appreciate for its fullness, and at the risk of asking once again a question that may have been asked earlier, was Bell Telephone notified that it was under investigation in its activities with respect to Northern Electric and of the areas in which its activities were being investigated? Was it so notified that that investigation was...

• (5:40 p.m.)

**Mr. Henry:** They were notified that they were being investigated, yes. The subject

matter which I have described in my statement was in course of inquiry, and I think I embarrass nobody if I say that both Northern Electric and Bell Telephone know the situation. I could not have started the inquiry without their knowing about it.

**Mr. Sherman:** This really brings up the question that bothers me most of all. I find it strange and I would ask you whether you do not find it strange that Bell Telephone, knowing that this investigation was taking place or was planned or was anticipated, would go ahead with the promotion of its Bill, with the application which is before Parliament at this time. Where does the concept of timing come in? I find it incredible that Bell, knowing they were under investigation, would go ahead with the present application that is before this Committee and before this federal legislature. Do you not find that strange?

**Mr. Henry:** I can make no comment about that, sir. I am a little lost because I am not entirely clear whether the Bill was introduced in Parliament before or after they became aware of our inquiry. I am at a loss because I just do not know and I have not really related it to the Bill because I cannot recall—and I am now speaking entirely about my own mental processes—that the Bill had anything whatever to do with the inquiry.

**Mr. Sherman:** No, I think it is fair to say that if Mr. Rock and I go too far in suggesting that Bell's case is prejudiced by the fact that it is now obvious public knowledge that the Combines Investigation Branch is looking into their activities, at least it is fair to say that this places an added kind of difficulty on Bell's position, where their Bill before this Committee and before Parliament is concerned. I think it militates against them. Whether it prejudices their case or not, it militates against them. And with all the super sophistication of intelligence and counter-intelligence activities and exercises that are practised in modern-day business and industry and government, it is extremely difficult for me to believe that they would proceed with the application they had made for increased capitalization and all the other things that are included in that Bill, knowing that within an appreciable number of months they were going to be under the searchlight



of public scrutiny because of an investigation that was either then undertaken or was going to be undertaken by the Combines Investigation Branch. This is the difficulty that I have in reconciling those two positions. But perhaps you cannot answer that for me; perhaps only Bell Telephone can answer it.

**Mr. Henry:** I am afraid that is so, Mr. Sherman. I am afraid I cannot answer that question because it is not within my knowledge.

**Mr. Davidson:** I think one thing that Mr. Henry said this morning, Mr. Sherman, bears somewhat on this. He pointed out that Bell and Northern have very good legal advice and undoubtedly take a different view of the circumstances of the inquiry than the Director takes, and this may partly answer your question.

**Mr. Sherman:** I may have to hold the extension of that line of questioning for another series of witnesses, Mr. Chairman. Thank you.

**The Vice-Chairman:** On the second round, Mr. Reid.

**Mr. Reid:** First of all I am not one of those who are very upset to find Mr. Henry and his associates here, because when we went into this particular Bill, a great many questions as to the propriety of many things that Bell was doing were immediately brought to public view; and if anything, I think an investigation will help clear the air so that we may know once and for all just what the status is. I would say too that briefs such as those of Industrial Wire and DCF Systems were just enough to create a great deal of doubt in my mind, as to the propriety of some of the actions as described.

I would like to return to the common carrier question just briefly and ask Mr. Henry if there is anything in federal statutes describing a common carrier, to your knowledge; outlining the concept of a common carrier.

**Mr. Henry:** No, I cannot answer that satisfactorily for your purposes off the top of my head. This I could find out for you and communicate to the Chairman of the Committee, if there is such a statute.

**Mr. Reid:** Yes. Now...

**Mr. Henry:** Excuse me. Incidentally, Mr. Reid, do you mean in any field of communi-

cation or transportation? Are you simply looking for a statutory definition of a common carrier?

**Mr. Reid:** Yes, that is correct.

**Mr. Henry:** It should be possible to find such a definition, and I will see what I can do about it.

**Mr. Reid:** Yes; my point is that perhaps there should be something written into the legislation about a common carrier, particularly as Bell is going into these other fields. We should have some form of guidelines so that we do not all get off the tracks.

**Mr. Allmand:** For the information of the Committee, the Quebec Civil Code—Bell operates in the Province of Quebec—has definitions of common carrier spelled out directly, and I think the Common Law in the other provinces has many definitions.

**Mr. Henry:** Yes, that is true. I assume that reference was to the federal statutes.

**Mr. Allmand:** The Quebec Civil Code under carriers has specific definitions which have been interpreted by the courts.

**Mr. Henry:** Fine.

**The Vice-Chairman:** Have you finished, Mr. Reid?

**Mr. Reid:** No, I would like to ask a series of questions now on the telephone operations. In your investigation, you are not investigating directly the telephone operations, are you?

**Mr. Henry:** That is correct. The service part of the industry is not under the Combines Investigation Act.

**Mr. Reid:** I see. You are going particularly into the relationship between Bell and Northern.

**Mr. Henry:** Yes, because we are only concerned with the impact of activities or the structure of the industry so far as it concerns goods that may be the subject of trade or commerce.

**Mr. Reid:** I see. And so you will not be dealing with telephone rates or anything like that?

**Mr. Henry:** Except as it may be incidentally necessary. Mr. Davidson did answer your question on that. He said we might do this.



**Mr. Davidson:** My only point was that we would be concerned, when examining the possibility of any different procurement arrangements that now exist, whether or not this would have a detrimental effect on the rates.

**Mr. Reid:** The point I am getting at basically is the question of reviewing those who do the reviewing, or the regulating of particular industries. There is the fear, and I think it is a legitimate one, that sometimes regulatory boards get too close to the industries they are trying to regulate. In other words, they get to understand the companies and their problems perhaps better than they understand those of the consumers. I was thinking, for example, of a case where I understand there is a Board of Transport Commissioners Order which states that if a telephone company has six thousand phones in a particular area, once they go up above seven they may increase their rates a certain percentage. It is a case here where the rates are going up with an expanding volume, which in this case would mean an increase in unit price even though with the volume you would expect the unit cost would be going down. There may be some economic reason for it, but it does seem very strange to me and I wanted to know if you would be going into this aspect.

**Mr. Henry:** Not likely, Mr. Reid. At this stage of my thinking anyway, I would take what the Board's function is and how they would regard regulation by the Board as something which takes the matter out of the market force type of regulation. The best I could say for the time being is that I would be concerned with the rates in so far as they may be affected by the failure or inability, which of course may not exist, of Bell to obtain the best price in the procurement of their supplies. That is really the nexus with my part of the inquiry, which is into the supplies that Bell requires and the rates the subscribers pay.

**Mr. Reid:** Then you have a problem, for example, in rate making which, as you pointed out, is a specialized activity. It has been suggested in this Committee and outside this Committee that one of Bell's problems is that it makes more money than it is allowed to make under the regulations of the Board of Transport Commissioners. Whether it is true or not I do not know, but the claim is made

that one of the ways they disguise this fact is that they perhaps indulge in, and make, work projects; that in a rural area for example they might put the lines under the ground instead of over the ground where it is not particularly necessary. Would this type of thing come under your investigation?

• (5:50 p.m.)

**Mr. Henry:** I should not think so, as I see the case at the moment.

**Mr. Reid:** I should think that it would. The telecommunications section of Bell is not presently regulated by anybody; is that correct?

**Mr. Davidson:** Any telecommunication service apart from the telephone service.

**Mr. Reid:** They are all unregulated at the present time. There is nobody to check to see how the rates are set, with the exception of what competition there exists in the market place.

**Mr. Henry:** Yes; so far as the non-telephone services of Bell are concerned. This is what you are speaking of?

**Mr. Reid:** Yes, that is correct.

**Mr. Henry:** Neither under regulation by the Commission nor under the Combines Investigation Act.

**Mr. Reid:** There is a vacuum in our legislation then?

**Mr. Henry:** That is right.

**Mr. Reid:** You suggested in your brief that Parliament might see fit to lay down guiding principles to assist in making a rational decision. What kind of principles do you have in mind—the extension principle or the common carrier principle?

**Mr. Henry:** I think it would be really premature for me to try to say that. This would lead me into attempting to define what government policy should be, Mr. Reid and I have not thought about it enough to be able to give you a really mature judgment on it. I am also not at all sure that I should at this stage, particularly without having done the necessary background work on it. At any rate, as Director of Investigation and Research I do not really think that that falls within the area of my jurisdiction.

**The Vice-Chairman:** Mr. Reid, your ten minutes is up. That is your last question. Mr. Émard?

[Translation]

**Mr. Émard:** Mr. Chairman, we have spoken at length about the relations which exist between The Bell Telephone Company of Canada and the Northern Electric Company Limited. Do you believe that these two companies should be separated?

[English]

**Mr. Davidson:** I think, sir, that this obviously would be a very large undertaking. Certainly, we have no opinion about that at this stage.

[Translation]

**Mr. Émard:** But if they had to be separated, in your opinion how could this be brought about?

[English]

**Mr. Davidson:** There are a variety of ways. Hypothetically, one could distribute to the shareholders of Bell, pro rata, the shares of Northern.

[Translation]

**Mr. Émard:** This is the method which in English is called "spin-off", is it not?

**Mr. Rock:** What kind of nationalist are you?

**Mr. Émard:** I am not a separatist, I am a Canadian nationalist.

Do you not believe that, for example, if the company had to be sold, Americans would try to get hold of it?

**The Vice-Chairman:** Mr. Émard, in my opinion, your questions are not especially pertinent to this Bill.

**Mr. Émard:** My remarks apply directly to the Northern Electric Company Limited. This goes beyond the realm of the application of the Combines Investigation Act.

**The Vice-Chairman:** I do not think that question is relevant to the Bill.

**Mr. Émard:** I will sum up my questions. I only want to say one thing to you, Mr. Henry. Prior to my being elected member of Parliament, I belonged to labor force move-

ments. The reports published by your Department have often been useful, especially for collective bargaining.

**The Vice-Chairman:** Again this is not relevant to the Bill.

**Mr. Émard:** I wonder if you were aware that your work had such repercussions.

[English]

**Mr. Henry:** Mr. Chairman, no, I was not aware of that particular one, but I might say it is surprising to what use our reports are put.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, I wish to ask Mr. Henry if he has said how an investigation terminates? Is there any danger that, after another few weeks of investigation, you may drop it on the ground that there was not enough evidence? This would also put us in a hole. We are presuming that there is quite a case here and that we may delay things; but if you found out that there was not sufficient evidence we would be made to look silly in the reverse way.

**Mr. Henry:** Yes, Mr. Bell, the discontinuance of an enquiry, of course, is something which takes place quite frequently. There are quite a number of examples of this in each of the annual reports.

I think I can say categorically that such a decision would not be made in this case within a matter of weeks. We are seriously pursuing a major enquiry, admittedly with scant resources which are hard-pressed, but we obviously are aware of the serious implications of the matter. We will push it forward as expeditiously as possible.

Again, consistent with what I have been saying about not prejudging the issues, it may turn out that as a result of much enquiry we will come to the conclusion that there is nothing to put before either the commission or the courts and that we will discontinue it, after exhaustive proceedings, quite some time from now. This happens, and this is a Combines investigation like all other Combines enquiries. It is governed by the statute and will be dealt with as the statute both authorizes and commands.

**Mr. Bell (Saint John-Albert):** We will be very careful with our questions of further witnesses, knowing that you are watching

the Committee reports as diligently as you are.

In answer to a question you said that you wrestled with your conscience for quite a while before you decided to make this public. We all appreciate that. What occurred to me at the time was what would have happened had we not called you as a witness? There would have been an even greater burden of responsibility on you to come forward and tell us this, would there not?

**Mr. Henry:** I suppose, Mr. Bell, this is a hypothetical question and that any answer I give will not really settle it.

Mr. Chairman, may I say one word?

**The Vice-Chairman:** Yes.

**Mr. Henry:** Mr. Chairman, I appreciate your allowing me just one moment.

One of the members did ask a question a little while ago, to which I did not have an opportunity to reply, concerning the philosophy of the Combines Investigation Act in relation to the task of the Department of Industry. I would like to emphasize that both our operations are going in the same direc-

tion. The Department of Industry has a particular function to strengthen Canadian industry and in doing that it often finds that particular devices it would like to use, or particular arrangements it would like to encourage in industry, or arrangements which are suggested to it by industry, raise some question about the application of the Combines Investigation Act. The Department of Industry works very closely with us when such a situation arises and it is meticulously careful to make sure that any proposals which it has or any policies which it wishes to develop, which it thinks may cause a problem under the Combines Investigation Act, are discussed with us.

I only wish to say that there is very good liaison between our two departments, and we both consider we are moving in the same direction in the Canadian interest. I wanted to make that clear before the meeting adjourned.

**The Vice-Chairman:** That is the end of the presentation before us today. I wish to thank the Committee and you three gentlemen, Mr. Henry, Mr. Davidson and Mr. Lindsay, for your great efforts today. Thank you.

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OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations  
and/or a translation into English of the French.

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Cost varies according to Committees.

Translated by the General Bureau for Trans-  
lation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House.*

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

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THURSDAY, DECEMBER 14, 1967

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Respecting

Bill C-104, An Act respecting the Bell Telephone Company  
of Canada.

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WITNESSES:

*Representing Noram Cable Construction Limited:* Mr. Clinton Forster,  
President; Mr. J. J. Milligan, Vice-President; Mr. F. R. Duncan,  
Q.C., P.Eng., Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,  
Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Émard,

Mr. Groos,  
Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-Huron*),  
Mr. Leboe,  
Mr. McWilliam,  
Mr. Nowlan,  
Mr. Orlikow,

Mr. Pascoe,  
Mr. Reid,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Saltsman,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—(24).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*



ORDER OF REFERENCE

TUESDAY, December 12, 1967.

*Ordered*,—That the name of Mr. Macaluso be substituted for that of Mr. Chatwood on the Standing Committee on Transport and Communications.

Attest.

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*

## REPORT TO THE HOUSE

DECEMBER 6, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### TENTH REPORT

Your Committee has considered Bill S-26, An Act respecting Trans-Canada Pipe Lines Limited, and has agreed to report it without amendment.

A copy of the Minutes of Proceedings and Evidence relating to this Bill (*Issue No. 11*) is tabled.

Respectfully submitted,

H. PIT LESSARD,  
*Vice-Chairman.*

## MINUTES OF PROCEEDINGS

THURSDAY, December 14, 1967.

(17)

The Standing Committee on Transport and Communications met this day at 10.10 o'clock a.m., the Acting Chairman, Mr. Lessard, presiding.

*Members present:* Mrs. Rideout and Messrs. Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Howe (*Wellington-Huron*), Leboe, Lessard, McWilliam, Nowlan, Orlikow, Pascoe, Reid, Rock, Southam—(15).

*In attendance: Representing Noram Cable Construction Limited:* Mr. Clinton Forster, President; Mr. J. J. Milligan, Vice-President; Mr. F. R. Duncan, Q.C., P.Eng., Counsel.

On motion of Mr. Byrne, seconded by Mr. Pascoe,

*Resolved,*—That Mr. Macaluso be re-elected Chairman of the Committee.

The Committee resumed its consideration of Bill C-104, An Act respecting The Bell Telephone Company of Canada.

On motion of Mr. Reid, seconded by Mr. Nowlan,

*Resolved,*—That the brief of Noram Cable Construction Ltd. be printed as an Appendix to this day's Minutes of Proceedings and Evidence (*See note below*).

The Vice-Chairman introduced the officials of Noram Cable and invited Counsel to make an introductory statement. Mr. Duncan explained the purpose of the Noram Cable brief, then asked Mr. Milligan to read the brief for the benefit of the Members. The Committee Members questioned Noram officials on their brief.

At 11.50 o'clock a.m., the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

NOTE: As the Noram Cable brief was read in full, it is not printed as an Appendix to today's Minutes of Proceedings and Evidence.





## EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, December 14, 1967

• 1012

**The Vice-Chairman:** Mrs. Rideout and gentlemen, I see a quorum. May we have a motion to reinstate Mr. Macaluso as Chairman of the Committee.

**Mr. Byrne:** Mr. Chairman, I have been informed that Mr. Macaluso has just returned from very important and onerous duties as a delegate to the United Nations and I would now move that he be reinstated as Chairman of this Committee.

**Mr. Pascoe:** I second the motion.

Motion agreed to.

**The Vice-Chairman:** I would also like to have a motion that the brief of Noram Cable Construction Limited be made an Appendix to today's Minutes of Proceedings and Evidence.

**Mr. Reid:** I so move.

**Mr. Nowlan:** I second the motion.

Motion agreed to.

**The Vice-Chairman:** We have with us this morning, from Noram Cable Construction Limited, Mr. Clinton Forster, President, Mr. J. J. Milligan, Vice-President, and Mr. F. R. Duncan, Q.C., Counsel.

I would ask Mr. Duncan to give us a summary of their brief.

**Mr. F. R. Duncan, Q.C., P. Eng. (Counsel for Noram Cable Construction Limited):** Mr. Chairman and gentlemen, Noram Cable Construction Limited is a small company which was incorporated in 1965 by Mr. Clinton Forster, President of the company, Mr. John Milligan, Vice-President, and Mr. David Gow of Toronto who is unable to be here today.

Although the company is new the experience of these three gentlemen goes back to the first days of cable television. For example, Mr. Milligan has been installing cable television for 15 years, which goes back to the first installations in Canada, and during

that time he has been instrumental in installing at least 24 systems.

• 1015

You are very kind to listen to us since we do not represent a large organization, but, on the other hand, we feel we have a valid viewpoint to present to the Committee.

Where The Bell Telephone Company of Canada is not servicing a community we would like the right to hook on to their poles. Although Mr. Milligan will go into our reasoning for this I would just like to say that by section 3 of the 1880 Act The Bell Telephone Company was allowed to go along, under and across roads and highways with lines of telephone, as a result of which they have built up an inventory of telephone poles that are strategically located for this community-type activity, cable television.

As I said, they have built up this inventory of poles because of their statutory right to do so for telephony. With respect to community activity we do not feel that The Bell Telephone Company should be excluded from it but we do feel that they should compete on an even basis in this new field of activity. In other words, if they are not servicing a particular area and if that community has allowed an easement to a customer of Noram then The Bell Telephone Company should be approached to allow coaxial cable to be strung along their telephone poles for a pole rental.

This is done quite frequently between utilities and telephone companies: If one owns the pole the other goes on it and pays a pole rental. We do not say that we should have an absolute right to do this but where an area is not being serviced by The Bell Telephone Company we do feel some authority should say that the customer of Noram has the right to go on these poles and set a fair rental. We think the revenue would be approximately the same as if The Bell Telephone Company strung the cable and charged rental for it.

Mr. Milligan will either read the brief or answer questions on it, whichever is the wish of the Committee.

**The Vice-Chairman:** Is it the wish of the Committee to have Mr. Milligan read the brief?

**Some hon. Members:** Agreed.

**Mr. J. J. Milligan (Vice-President, Noram Cable Construction Limited):** The last decade in Canada has seen vast strides in a new and exciting industry, namely, the installation and use of high frequency coaxial cable. Along this cable can be transmitted a whole spectrum of radio frequencies a small interval of which is used to transmit and receive picture and sound television programs.

Other intervals of the radio frequency spectrum may in future be the vehicle for closed-circuit television, educational television facsimile, the printing of the daily newspaper in the home and shopping by television. In fact only the limit of man's imagination governs the extent to which the radio frequency spectrum can be used when carried to subscribers by coaxial cable.

Noram Cable Construction Limited is proud to have played its part in constructing and installing for individual owners coaxial cable television systems. It brings the latest of technological developments into the very homes of subscribers. It welcomes any and all competition provided that all are on an equal footing.

• 1020

Whether this industry is to advance competitively or be developed as, if, and when one company dictates, is in the hands of Parliament in its disposition of Bill C-104.

The Bell Telephone Company has been given extraordinary powers to construct lines of telephone along the sides of and across or under any public highways and streets. By virtue of this power granted by Parliament it has the telephone poles needed by cable television. A municipal easement is required for coaxial cable use, whether by The Bell Telephone Company or any other user. In fact, The Bell Telephone Company has arbitrarily been proceeding without such easements being secured. Competition is throttled unless the poles are available to that user which received a municipal franchise. As the poles were erected for telephony we feel they should be made available on a pole rental basis for purposes other than telephony and, in particular, for cable TV upon application to and subject to the regulations of the Board of Transport Commissioners.

This is not the case. At present The Bell Telephone Company installs cable television systems and retains ownership thereof and rents spectrum space to individual operators. Whether The Bell Telephone Company should be privileged to withhold its plant erected with the powers granted by Parliament for telephony is an ethical problem facing the legislators when the future dissemination of intelligence by coaxial cable is considered.

In our concept of a free enterprise society it is submitted that Noram Cable Construction Limited has the right to be in this business in a competitive way because cable television, unlike telephone service, lends itself to competition. It is in the best interests of the viewer as well as the operator to be allowed a choice.

Long before The Bell Telephone Company recognized that cable television could be a viable business, other companies appreciated the need to improve television service in some areas and developed a method of distributing television signals from one central antenna. At no point in the development of cable television has The Bell Telephone Company of Canada made a major contribution to the development of the industry. On the other hand, pieces of equipment and types of cable have been developed by others than The Bell Telephone Company. For example the cable which has emerged as the accepted standard for television signals was developed for the industry by Canada Wire and Cable Company Limited. It produced an aluminum cable which was economically feasible and introduced it to the industry.

The use of this aluminum-jacketed cable was, in at least one case, resisted by The Bell Telephone Company in that it insisted that Northern Electric copper tape cable be used. Eventually The Bell Telephone Company agreed in the case in question to instal the cable produced by Canada Wire and Cable Company Limited but charged the operator a premium price. Now, six years later, it is quite clear that the operators were correct in their assessment of the value of such a product because Northern Electric, a subsidiary of The Bell Telephone Company, at present manufactures the identical aluminum cable.

The operators of coaxial systems quite often use public utility commission poles as the restrictions relating to such poles are, in the usual case, consistent with good business and engineering practice. However, in the



initial stages, The Bell Telephone Company took the position that once it was on a pole, whether the sole property of The Bell Telephone Company or owned by and used in conjunction with any other utility or service, the Telephone Company could restrain the use of any coaxial cable disposition. The Bell Telephone Company has since withdrawn from such a position with respect to poles owned by other utilities, but it still maintains that it has the right to refuse any other person the use of poles owned by The Bell Telephone Company. As suggested earlier, it seems that The Bell Telephone Company of Canada takes the position that once they own the poles they alone should be entitled to own the system, which is the practice of The Bell Telephone Company and the apparent reason why spectrum space only is leased.

Competition increases the quality of service and reduces the price at which it is available to the user. It is true as well that while the telephone industry lends itself to a monopolistic approach the CATV industry lends itself to a competitive approach. Television users should be free to choose the method by which and the person from whom they will receive their television signals. If a customer is being deprived of cable television by reason of Bell's prior commitments and heavy work load, those subscribers or potential subscribers should not be delayed unreasonably in receiving cable television service where, in fact, there could be an economical and satisfactory approach by a private contractor such as Noram Cable Construction Limited.

• 1025

For example, in one instance a cable television operator was anxious to provide service to viewers who were requesting this service but were unable to deliver when subscribers wanted the service. This operator then approached Noram Cable Construction Limited and proposed that they contact The Bell Telephone Company and offer their services as a sub-contractor to facilitate the installation of cable in this area. On this occasion Noram Cable Construction Limited wrote to The Bell Telephone Company offering their services at a competitive rate but to this date have received no reply. This may well have delayed the service to this particular area and inconvenienced the public. Public convenience ought to be a consideration in such an instance.

Each operator should have the right to choose the best method to serve his potential customers. We feel that there should be several courses open to the operator, particularly if he cannot obtain satisfactory service from The Bell Telephone Company. He should be able to employ an independent construction firm to construct his CATV system and, if necessary, along The Bell Telephone Company poles at a pole rental rate decided by an independent regulatory body such as the Board of Transport Commissioners. It is understood that such reasonable use would have no adverse effect on The Bell Telephone's ability to deliver telephone service.

It goes without saying that any construction on Bell plant or any other plant should conform to Canadian Standards Association's standards. With such safeguards there should be no difficulty as can be demonstrated by numerous examples of private CATV systems installed on telephone company plants in areas of the country not controlled by the Bell. The light aluminum cable to be used by cable television operators would provide negligible additional loading on existing Bell Telephone Company plants.

The Bell Telephone Company has provided competent assistance in the area of providing efficient telephone service and Northern Electric has always provided excellent equipment for use by private telephone companies. It is, however, interesting to note that when a private telephone operator wishes to become involved in cable television he does not look to The Bell Telephone Company for assistance or to Northern Electric for equipment. He goes elsewhere for this guidance. The Bell Telephone Company has not, so far as cable television is concerned, demonstrated any particular efficiency or ability.

Certain business areas do not lend themselves to competition. An example of this is the telephone industry because a subscriber is transmitting as well as receiving over the same circuits. However, this principle may not be extended to CATV which can be compared to the electrical industry in the United States where competition is permitted and rates are substantially lower than, for example, in Ontario.

There are some cases where small businesses or small industries cannot fully service a market but this is not the case with respect to CATV systems where the operators fully service the fields open to them.

Private telephone companies look to Noram Cable Construction Limited and other such organizations for guidance in cable TV matters. It appears and is quite clear that The Bell Telephone Company, although able to deal under the guidance and direction of the Board of Transport Commissioners in the field related to the telephone industry, has not been able to meet the requirements of the public and the independent cable television operators operating in a competitive society. In fact, the field in the construction of CATV systems should be wide open to further the requirements of satisfying the demands of the public.

It is clear that The Bell Telephone Company will not be able to service the areas which it controls by reason of its poles in, say, the greater Metropolitan Toronto area, in a reasonable period of time.

The Bell Telephone Company is without doubt providing the finest telephone service to be found anywhere and it will be difficult to find fault in the overall telephone picture. However, there is one area in which Noram Cable Construction Limited can justly claim superiority: cable television. Noram Cable Construction Limited has more experience and greater knowledge of CATV and when Noram Cable Construction Limited installs a CATV system the operator has the following advantages: Lower cost, faster service and better service. However, Noram Cable Construction Limited is excluded from offering these services to a large segment of the industry because of The Bell Telephone Company's control over strategically located poles.

• 1030

The Bell Telephone Company is not too concerned if Noram Cable Construction Limited installs CATV systems in small towns but let it attempt to tackle a large city and every method in the power of The Bell Telephone Company will be brought to bear to stop such a move. For example, Noram Cable Construction Limited was recently working with a group of business men who wished to wire a city in excess of a population of 50,000. This group had formed a public company and had raised sufficient capital to enter the CATV business. They preferred to own their own plant and therefore arranged to contract with the public utilities commission. The Bell Telephone Company had been dealing with another operator who wished to have The Bell CATV system installed. When it appeared that the non-Bell system was

going to win the blessing of the municipality, The Bell Telephone Company quickly moved in and bought out the small operator, paying three times what the stock had been worth two months previously. This, in effect, stopped competition in a relatively large CATV market.

It is clear to independent operators that The Bell Telephone Company is anxious to corner the CATV business by owning as much as possible of the physical plant and becoming involved in all phases of the business. It claims that it has no intention of ever becoming an operator, but rather the provider of facilities. Should not the operator own his own plant if he so wishes? The Bell Telephone Company has clearly fought to own every possible foot of CATV cable. If it were not interested in eventually becoming an operator the ownership would not be nearly so important to them. If The Bell means what it says it should have no objection to renting pole space to operators who wish to own their own CATV systems.

The legislators have condemned everyone who conspires, combines, agrees, or arranges, with another person to restrain or injure commerce in relation to any article. We respectfully submit that the committee representing the legislators should take a similar attitude with respect to a situation which restrains competition in the field of cable TV. The Bell Telephone Company, by not making its poles available on a rental basis, is in exactly this position. Yet its inventory of strategic poles was built up by means of special powers granted by Parliament.

Take the Toronto market, for example. The Bell Telephone Company is in a dominant position to say who shall or shall not operate in certain areas. As a result, The Bell Telephone Company can carve up a map of Toronto and locate in each area the TV distributor of its choice. Surely it was not the intention of Parliament, in granting The Bell Telephone Company extraordinary powers, to put it in this position.

A practice has developed in the United States and in those parts of Canada not controlled by The Bell Telephone Company for the distributor of TV programmes to rent pole-space from the telephone company. Noram Cable Construction Limited feels that The Bell Telephone Company should be compelled to rent pole-space to a distributor who proposes to operate in a certain area. This seems like fair exchange for its statutory



right to erect poles and by virtue of its monopolistic position in the telephone industry.

We therefore respectfully submit that the proposed bill be amended to provide access to telephone poles for coaxial cable purposes on an equitable basis.

**The Vice-Chairman:** Gentlemen, you have heard the reading of the brief. I am sure you will have questions to ask.

Mr. Rock, you are first.

**Mr. Rock:** Gentlemen, you say on page 2 of your brief:

...The Bell Telephone Company has arbitrarily been proceeding without such easements being secured.

You are aware that municipalities must give consent before poles are placed?

**Mr. Milligan:** What we mean there is that the Bell Telephone has the right-of-way and has an easement for the installation of telephone facilities, as granted by the Telephone Act.

• 1035

**Mr. Rock:** Yes; but each time they want to put up a pole anywhere within a municipality they still have to get municipal permission.

**Mr. Milligan:** Yes, this is true.

**Mr. Rock:** They have the power, but they still have to get permission each time they put up a pole; and have to send in a diagram or a plan of what they intend to do.

**Mr. Milligan:** This is true; but not if they go along at a later date and attach coaxial cable to those poles.

**Mr. Rock:** Of course not; and you are also aware that the CATV operators ask permission from the municipality to operate in a certain sector of that municipality?

**Mr. Milligan:** Yes; but they do not own the lines.

**Mr. Rock:** No; but they do ask permission from the municipality.

**Mr. Milligan:** In most cases where they go in to operate in conjunction with Bell the normal procedure has been to advise the municipality that they are coming in.

**Mr. Rock:** Are you sure of that, sir? I have been a municipal councillor for 13 years and I have never known it to operate that way. It has always operated the opposite way. It is the municipal council which decides which group is going to put in the cables, which group is going to run the CATV and usually if it is between a local man and outsiders the local man gets it.

**Mr. Milligan:** This is the way it should be, but I know of two or three instances where this has not happened.

For example, in North Bay and Midland I am quite sure this was not the case.

**Mr. Rock:** But you are merely saying that; you are not proving anything there.

**Mr. Milligan:** Oh, I am quite sure that I could.

**Mr. Rock:** I wish to refer to pages 3 and 8. You say that it is understandable why the telephone industry should be a monopoly, and you go on:

However, this principle may not be extended to the CATV industry which can be compared to the electrical industry in the United States where competition is permitted and rates are substantially lower...

This is rather surprising. Where exactly does one find, in the same area, or on the same street, two competing distribution networks of electricity, or even CATV?

**Mr. Milligan:** I can cite the instance of Chapeau, a relatively small town in northern Ontario, in which an operator was providing service and charging rates which certain other people in the town felt were out of line. Another group was formed and installed another system to compete with the system that was already there, and offering a better service at lower rates.

We feel that although this is the exception and not the rule, it is the safeguard that should be there and that the CATV industry should abide by the law of the market-place; in other words, leave it open to competition so that the person with the best product at the lowest price gains.

**Mr. Rock:** In other words, if three or four people in the same sector want to operate a CATV network you say that they should do so?



**Mr. Milligan:** Within the realm of good business procedure. That is, if someone is abusing their rights, or if an operator is charging exorbitant rates and giving poor service, then someone else should have the right to go in and compete. Generally speaking, this would never happen, because most businessmen would realize that it would be folly to attempt to compete with someone who is already giving good service at reasonable rates.

**Mr. Rock:** I could agree with you if you said that you actually want CATV to be controlled by the Board of Transport Commissioners, but you are not saying that. You are saying that if there is abuse then, and only then should another CATV operator be allowed to come in on the same poles. You say there should be competition. Where is the competition in that case?

**Mr. Milligan:** I am saying that it should be left to businessmen to decide when it is advisable to compete. In other words, if a man is operating a business in a certain area and making an excessive profit, or doing very well, someone else may come along and say: "Well, that looks like a good business. I would like to compete with him." This is the whole basis of our free enterprise society, and it should be encouraged wherever possible.

**Mr. Rock:** I do not understand your thinking in this at all. At one point you say "yes" and at another you say "no". If you think that CATV should be based on the free enterprise system, in which everyone competes in the same sector, you should say so, but you are putting limits here and limits there and "if" this and "if" that. I do not understand your thinking.

• 1040

**Mr. Milligan:** All I am saying is that it is an industry. For instance, if you compare it to the newspaper industry, where you are selling papers, if two or three newspapers wish to service a certain area the paper which provides the best service and at the right price, and so on, will get the business. Perhaps this is not a...

**Mr. Rock:** No, I do not think it is a good example. People will sometimes buy three newspapers but they will not buy three CTV networks, they will not connect with three systems.

**Mr. Milligan:** That is true.

**Mr. Rock:** I assume you agree it would look terrible to have two and three CATV companies; you would have more wires strung on the poles than ever before.

**Mr. Milligan:** Yes, but I submit that if the average operator were left with the decision when he would go in and compete, good business practice would automatically regulate this to the point where there would not be an excessive number of lines on the poles.

**Mr. Rock:** What about where municipalities are trying to force the electrical companies—which they have a difficult time in doing—or Bell Telephone to go underground? Where do the CATV people stand in this case?

**Mr. Milligan:** They would also go underground, as they have done in many instances.

**Mr. Rock:** Then if they can go underground today they do not need to use the poles, they can go underground immediately without being obliged to use either hydro or telephone poles.

**Mr. Milligan:** This is true but the cost of going underground in many instance is prohibitive if it has to be done on an exclusive basis. If there is no other choice, then certainly this is the way to go.

**Mr. Rock:** Yes. Mr. Zimmerman introduced this Committee to the concept of the electronic highway, which is a broad band channel into every home for the transmission of telephone, television, educational television, data, transmission signals and video telephone systems. You mention this in your opening statement on page 1. We have been told that all those things can eventually pass through the same channel. Why is it then not reasonable to have only one supplier for these channels?

**Mr. Milligan:** There is a distinction to be made that we feel is an important one. If it is a situation where citizen A wishes to communicate and send and receive information to citizen B, whether it be by telephone or video telephone, or what have you, then that is an area that logically falls into the telephone companies' domain. But if it is a situation where someone is selling a service—if you can call a television picture a service—then I feel that area that can be left open to competition, wherever possible or practical,

should be left open to competition. However, as soon as a number of telephone companies attempt to compete and interconnect citizens then, of course, competition is impractical.

**Mr. Rock:** Yes. Coming back to the coaxial cable, could that cable be installed underground as well as on poles?

**Mr. Milligan:** Oh, yes.

**Mr. Rock:** You have one that is aluminum covered with a plastic cover on top of the aluminum.

**Mr. Milligan:** That is right.

**Mr. Rock:** Is this the one that can go underground...

**Mr. Milligan:** That is right.

**Mr. Rock:** ... or does a special plastic have to be put over the cable?

**Mr. Milligan:** Normally it is the same cable except that it has additional protection for burial...

**Mr. Rock:** Yes.

**Mr. Milligan:** ... to prevent the corrosive elements in the soil from attacking the aluminum, but basically it is still the same aluminum cable.

• 1045

**Mr. Rock:** Yes. Therefore it is a simple matter for any CATV operator to actually ignore the hydro and Bell Telephone and just get permission from the municipality and offer them an underground system, which I think the municipality would be happy to accept.

**Mr. Milligan:** In a town or city where the poles are already available it would cost much less and would create far fewer problems to install on the poles than to go underground.

**Mr. Rock:** Even considering the amount of money the CATV people would have to pay the Bell or the hydro for the use of their system?

**Mr. Milligan:** Oh, yes, because usually if you go underground in an area that is already built up it involves digging up landscaped properties and all sorts of problems which are not encountered if you attach to already existing aerial plants, but certainly this can be done and is being done.

**Mr. Rock:** Yes. The brief states on page 8 that Bell is unable "to meet the requirements of the public and the independent cable television operators operating in a competitive society". Are you an operator of a CATV network?

**Mr. Milligan:** We have a small one, yes.

**Mr. Rock:** You are the owner of one?

**Mr. Milligan:** Yes, but our primary function is that of a contractor installing systems for other operators.

**Mr. Rock:** Yes. I cannot understand the fact that you are not here complaining as a CATV operator but merely as an installer of cable?

**Mr. Milligan:** This is correct.

**Mr. Rock:** Because I have not seen any briefs from any CATV people, they are not complaining. I know they are only concerned about being controlled by the new Board of Transport Commissioners for Canada.

**Mr. Milligan:** That is true. I wish to make it clear that we are not speaking here on behalf of the operators, we are speaking on our own behalf as a contractor. We feel that although there are a sufficient number of operators in the industry who would like to own their own plant they are prevented from doing so in certain areas and we believe they should have this right.

**Mr. Rock:** There are quite a number of CATV operators in Ontario and Quebec, around 200 or so. Some of them are quite large and they are owned by big corporations like Famous Players in Toronto. It surprises me that you are the only one complaining against Bell Telephone when there are 200 or so operators within these two provinces that are not here complaining.

**Mr. Milligan:** They are not in the same position we are in. I must point out again that we are not complaining as an operator but as a contractor. We feel that in the area of providing the installation and service of a CATV system that we are competing with The Bell Telephone Company. We also feel that that competition is unfair by virtue of the fact that they are using the advantage obtained by their telephone right-of-way in order to virtually control certain areas for purposes other than telephone.

**Mr. Rock:** Yes, but here you have about 200 different companies from all over the



place that are not complaining. They are using the Bell and hydro services and they are not complaining but you are complaining because you are not getting a job, or something like this.

**Mr. Milligan:** We are complaining because they are using the Bell services and not ours. We feel we can offer them something. We believe there is a market here that can be exploited if we are allowed to compete on a fair and equitable basis.

**Mr. Rock:** Has your company ever requested of Bell in writing a contract for installation or to instal cable? Have you ever submitted written prices in this regard to The Bell Company of Canada?

**Mr. Milligan:** Yes, we have.

**Mr. Rock:** Do you have a copy of that letter? On what date was it written?

**Mr. Milligan:** Yes, I have it right here.

**Mr. Rock:** Will you read it?

**Mr. Milligan:** Yes.

● 1050

This is a letter date June 1, 1967, directed to Mr. Peter White, Construction Officer, Bell Telephone Company of Canada, First Avenue, Ottawa, Ontario. It reads:

Dear Mr. White:

I would like to draw to your attention the services of Noram Cable Construction Limited, should the services of a sub-contractor for Community Antenna Television be considered by the Bell Telephone Company.

We are fully equipped to do any phase of Community Antenna Television work, having recently completed two turn-key installations, including Parabolic antenna and Head-End design, for two privately owned telephone companies.

Our personnel have been in the Community Antenna Television business since its inception and I feel that we could provide valuable assistance to your company should you at any time require the services of a sub-contractor at any location.

This was signed by D. A. Page, Chief Engineer. We received no written reply to that

letter. Another letter sent on June 7, 1967, to the same address, reads:

Dear Sir:

Further to your telephone conversation of June 5, 1967... we are forwarding the following information for your consideration.

Noram will provide construction crews, vehicles and equipment for the installation of CATV aerial cables and equipment at the following rate...

And the rates are quoted. Are you interested in hearing them

**Mr. Rock:** No, not the rates.

**Mr. Milligan:** And the various methods of doing it are also described. Then it goes on:

Noram personnel have been actively engaged in the CATV business for many years. Our experience gained as employees of the Metronics Corporation, Guelph Ontario, has been with both Telephone systems and P.U.C. pole systems. Noram has built a good reputation with Telephone Companies in British Columbia, Independent Telephone Companies in Ontario and the Maritimes. We feel confident that as CATV specialists we can provide you with efficient, satisfactory cable installation service.

We trust that this outline of our services and charges will be helpful to you in learning about Noram and that we may be of service to you in the future.

Thank you for your interest in this Company.

Sincerely,

Noram Cable Construction Limited

We received no reply to that letter either.

**Mr. Rock:** You have received no reply. I see. My last question is: as you are not a CATV company but are interested in the installation, that is, you work as an installer of the cables, how could you ask for power to instal cables on Bell or hydro poles as just the contractor who is going to instal the cable? I cannot understand your thinking in this regard. It is usually the people who are going to be involved in the network itself who get somebody to do the job for them and it is this company, not the installers, that makes the deal. It is the company itself, and I do not know how you, as an in-between, fit in, unless you are thinking that if you gain



this power you will then be able to run to other companies and say: "Look, we have a franchise; now you have to use us."

**Mr. Milligan:** Well, no. That is a good question.

**Mr. Rock:** There are two ways.

**Mr. Milligan:** That is a good point. But in fact most of the people who have approached us to install a CATV system for them are completely new to this business. They say to us, "Look, we know nothing about it; you negotiate on our behalf." We then approach town councils and public utilities commissions and so on. To date we have negotiated a number of situations on this basis and we have installed a number of systems on public utility plants where this is feasible. We have had no difficulty in negotiating full contracts with public utility commissions or CN telegraphs or CP telegraphs or any other pole owner. But we have not as yet been successful with the Bell, and this we feel is not the way it should be.

**Mr. Rock:** So you are more or less a installing contractor and you are also consultants in the same manner. In other words, you do sometimes plan the whole system for a company?

**Mr. Milligan:** This is our client's...

**Mr. Rock:** Or do you just take their plan and install, and it is some other consultants who plan the system for CATV companies?

**Mr. Milligan:** No, we would. This is our function, the planning and engineering of the system.

**Mr. Rock:** You do that also? In other words, if anyone here wanted to get into that business, he would go to you; you would be able to plan, build, and install the whole thing.

**Mr. Milligan:** And turn it over to him when it was finished; that is right.

• 1055

**Mr. Rock:** Thank you.

**The Vice-Chairman:** Mr. Byrne.

**Mr. Byrne:** Mr. Milligan, what do you define as a space spectrum? What does this mean?

**Mr. Milligan:** By that I meant space in the radio frequency spectrum. In other words, a

coaxial cable could be used, for the sake of argument, at frequencies between 10 megacycles and 300 megacycles. A small portion of that spectrum space would be used for television, leaving other frequencies that could be used for other purposes. Does that answer your question?

**Mr. Byrne:** Yes. I am trying to find in your brief just where it was used. When we went by it I intended to ask the question.

**Mr. Milligan:** It was on page one.

**Mr. Byrne:** Well, in any event, frequency spectrum can be used to encourage new subscribers.

...only the limit of man's imagination...

You have frequency spectrum but you also have space spectrum and I gather this has some relation to space on the poles?

**Mr. Milligan:** No.

**Mr. Byrne:** It has nothing to do with the carrying, that is the application of the cable to the poles through the cities?

**Mr. Milligan:** No.

**Mr. Byrne:** To what clause of the Bill are you referring? You refer simply to Bill C-104 as one which gives these broad powers and does not provide for competition in any way. Which clause of the Bill do you feel should be amended in order to provide that Bell Telephone must negotiate with those who may make application for use of their poles?

**Mr. Milligan:** I think this would have to be a new or additional clause because I do not think there is anything in the Bill that would relate to that.

**Mr. Byrne:** Power companies distribute power. Do they normally have or enjoy these privileges in common with Bell Telephone?

**Mr. Milligan:** Yes.

**Mr. Byrne:** So that Bell Telephone is not the only vehicle which would be available to you?

**Mr. Milligan:** This is right. The reason we are in business at all is the fact that there are certain towns that can be wired satisfactorily without Bell poles. However, there are large areas in which we cannot offer our services because Bell does control the poles.

**Mr. Byrne:** Have you ever experienced any difficulty with power companies in respect of an application?

**Mr. Milligan:** No.

**Mr. Byrne:** Why would Bell be concerned about defining whose equipment should be used? Is it because they have a subsidiary manufacturing cables?

**Mr. Milligan:** Actually, we feel they will attempt to promote the products of Northern.

**Mr. Byrne:** To the exclusion of...

**Mr. Milligan:** Well, we do not feel it should be to the exclusion, but it should be on an equitable basis. We submit that it has not always been that way.

**Mr. Byrne:** The pole rentals are on an annual basis at so much per pole; is that the common practice?

**Mr. Milligan:** This is right.

**Mr. Byrne:** How would one determine who should become the carrier if Northern Electric should bid \$4 a pole and Noram \$3.75? Is any opportunity given for bidding in this respect? Who actually says who the carrier will be? How is it determined if not by Bell simply determining it arbitrarily?

• 1100

**Mr. Milligan:** Normally if an operator wishes to go into business in a particular town, if he chooses a route other than Bell Telephone, he would approach the municipality and request that a by-law be passed which would give him the right to install his cables in the town. He would then negotiate with the public utilities commission for a joint use agreement and he would then proceed to wire the town. The rate at which he would rent space from the public utilities commission is the rate which is normally in effect. In other words, Bell Telephone, the telegraph people, or whoever else wishes to rent space, will rent this space from the public utility commission at a certain rate and this is a more or less standard rate that is applied throughout any one area, and to my knowledge there has never been any bidding involved on that basis.

**Mr. Byrne:** The Bell Telephone Company of Canada describes itself as a common carrier. How could this possibly then apply to poles, unless there is a designated link

between those poles? Your coaxial cable would not be a common carrier.

**Mr. Milligan:** You mean the coaxial cable which is owned by others than Bell?

**Mr. Byrne:** It could only apply to one television company. The coaxial cable could not carry the products of two companies.

**Mr. Milligan:** I would say it could. This is what Bell Telephone wants to see happen in the cable television industry today. They will only allow you to use a certain portion of the spectrum for the distribution of television signals. They reserve the rest of the spectrum for their own use. So in effect, a situation could develop where that cable was being used by two different companies.

**Mr. Byrne:** Then it is conceivable that two or more of the 200 operators that Mr. Rock referred to could be distributing CATV through one coaxial cable?

**Mr. Milligan:** I do not know whether it would be practical to distribute more than one CATV service through one cable, but certainly you could have one CATV service, a facsimile service or educational television, or various other special services, but I do not think it would be practical if the same cable were to deliver two CATV services.

**Mr. Byrne:** Do you have any concrete examples of Bell simply moving to block other operators, that is, other—

**Mr. Milligan:** Other uses of cables?

**Mr. Byrne:** You gave an example where two or three companies were bought out by Bell because they were of the opinion that the municipality was going to favour competing companies. Can you document that?

**Mr. Milligan:** Yes. This happened in Sarnia.

**Mr. Byrne:** I was going to ask you if it was Sarnia.

**Mr. Milligan:** This was the situation as we saw it. Southern Tele Services Limited, which was basically an independent telephone company operating in Corunna on the outskirts of Sarnia, had us install a CATV system on their plant to serve Corunna and then wished to expand this system to also serve Sarnia. They approached the public utilities commission in Sarnia and arranged a full contract. They were then working with the Board of



Education and the council in an effort to obtain a by-law which would allow them to proceed to wire Sarnia and various negotiations were carried on over a period of months.

• 1105

A joint meeting of the council and the Board of Education was held on Thursday, August 3 because the Board of Education was interested in the free educational services that Southern Tele Services were promising to provide. At that meeting the consensus appeared to be that the municipality was going to favour the installation of the non-Bell system and, according to the best information we can obtain, that weekend Bell Telephone executives flew in to Sarnia and offered, I believe, \$29 a share for shares that a very short time previously had sold for \$10. They were justified, of course, in buying Southern Tele Services because it was a telephone company. Once they had achieved control of this company, which they had to do over the weekend because the final council meeting was on the Monday,—

**Mr. Byrne:** On Sunday?

**Mr. Milligan:** I believe some negotiations took place over the weekend but when the Monday council meeting took place the opposition was effectively eliminated.

**Mr. Byrne:** You refer to the electrical industry in the United States on page eight, and you say:

competition is permitted and rates are substantially lower than, for example, in Ontario.

Why do you find it necessary to introduce this comparison? Are you referring to hydro being distributed cheaper in the United States than in Ontario?

**Mr. Milligan:** In some instances this is the case according to advice we have received.

**Mr. Byrne:** I do not know what the situation is in that section of the United States but it should be pointed out that in the western United States hydro power is very heavily subsidised by the state. Does this power come from the Tennessee Valley Authority or from some similar organization?

**Mr. Milligan:** I am not really an authority in this area. This was a . . .

**Mr. Byrne:** I rather doubt that the hydro producers in the United States can be used as a fair comparison with respect to competition.

**The Chairman:** Mr. Deachman.

**Mr. Deachman:** Mr. Chairman, while Mr. Byrne was talking to the witness Mr. Reid and I had a look at clause 3 of the act of incorporation of The Bell Telephone Company of Canada. It reads in part:

The said company may construct, erect and maintain its line or lines of telephone along the sides of and across or under any public highways, streets bridges . . .

And it goes on to describe how the government of Canada stood behind The Bell Telephone in the acquisition of a system of easements which would enable it to operate in the manner in which it has done. If I understand you correctly, sir, you are here to appeal to us to change the nature of that?

• 1110

**Mr. Milligan:** Not as far as telephone service is concerned.

**Mr. Deachman:** But to change the nature of the right and, if I am not mistaken, that was understood to be an exclusive right. However, I think when the government wrote the act, if they wanted to grant a general easement which could be used by anybody who had to string wire for any purposes, that would have been written into the act at the time. However, it was not done.

I am not a lawyer and perhaps other people in this room are more familiar with the legal implications of this matter than I am, but it seems to me that at the time it was an exclusive right. To come back then to the question, are you not asking that the government change the nature of this kind of contract?

**Mr. Milligan:** No. We feel that it should be an exclusive contract as far as the telephone industry is concerned. We have no argument there, and I believe the intent of Parliament in passing the Act was that they wished to facilitate the provision of efficient telephone service. Now we are talking about a different industry.

**Mr. Deachman:** Your concept of the use of those poles is that whenever a different industry comes along that could make use of them they should have that right. Is that the argument you make?

**Mr. Milligan:** Basically, yes.



**Mr. Deachman:** Basically, that is your argument; these were not put up exclusively as a telephone system but it was the intention of the government and the understanding of the Company that these poles, in due course, should be used for any other purpose as long as it was not a telephone line.

**Mr. Milligan:** Yes, so long as it in no way impeded the telephone company's ability to provide telephone service.

**Mr. Deachman:** You could not make snow fences out of them. I have not been a municipal councillor as Mr. Rock was for 13 years, but all my life I have been nailing election bills on telephone poles and I always found that they considered them to be very sacred property.

**Mr. Pascoe:** Is that not illegal?

**Mr. Deachman:** I guess you do not do it in your constituency.

**Mr. Duncan:** Could I say a word with respect to clause 11? This clause gives Bell—I do not know whether it is an exclusive right or not—a very valuable right to go into a municipality and, without requiring an easement by-law, to erect lines of telephone. Our position is that if somebody comes along and wants to use it for other than lines of telephone they should deal with the municipality and get the easement from the municipality. We do not want that section of the Act necessarily expanded. We maintain that they deal with the municipality and whoever is erecting coaxial cable then should be able to use the telephone poles.

**Mr. Deachman:** What has happened in the case of the CPR, the CNR, hydro, and other telephone companies in other provinces. What is their attitude toward the use of their poles?

**Mr. Milligan:** Generally speaking, telephone companies in other parts of Canada and in the United States will rent pole space.

**Mr. Deachman:** They will rent pole space?

**Mr. Milligan:** Yes.

**Mr. Deachman:** You believe that to be generally the case?

**Mr. Milligan:** I would say it is the case in a sufficient segment of the industry to prove that it can be done on a workable basis.

**Mr. Deachman:** The CPR and the CNR have poles through both the country and the cities, to some extent; what do they do?

**Mr. Milligan:** They will rent pole space.

**Mr. Deachman:** They will rent pole space for cable TV?

**Mr. Milligan:** That is right.

**Mr. Deachman:** What is your position in relation to hydro poles? Are you able to use hydro poles?

**Mr. Milligan:** Yes. We use Ontario Hydro.

**Mr. Deachman:** In the Province of Ontario, from what companies or agencies are you getting the right to run your cable TV on poles? Can you name those that you have dealt with?

• 1115

**Mr. Milligan:** In terms of specific municipalities?

**Mr. Deachman:** Yes. Could you name companies that are owners of poles from which you have been able to get easements?

**Mr. Milligan:** I could name the various public utilities commissions in the various towns and cities that allow this. Is this what you mean?

**Mr. Deachman:** Yes. They do allow this? Who owns those poles?

**Mr. Milligan:** They are owned by the public utilities commissions in the various communities; for instance, Owen Sound, Guelph, Collingwood, Huntsville, Peterborough, Tillsonburg. Those are a few that I think of offhand.

**Mr. Deachman:** What about CN/CP Telecommunications? Have you strung cable on their poles?

**Mr. Milligan:** Yes.

**Mr. Deachman:** Where in the Province of Ontario have you done this?

**Mr. Milligan:** In Barrie, Ontario, there is a line of coaxial cable attached to Canadian National telegraph poles. In Guelph there is a line attached to the Canadian Pacific telegraph poles.

**Mr. Deachman:** Not operated by them but operated as an easement by a cable TV company?

**Mr. Milligan:** That is right.

**Mr. Deachman:** Do you have any on Bell Telephone poles?

**Mr. Milligan:** Not to my knowledge.

**Mr. Deachman:** To your knowledge, are there any easements of any kind on Bell poles for any other purpose?

**Mr. Milligan:** Yes, for hydro, of course.

**Mr. Deachman:** Hydro?

**Mr. Milligan:** Yes. In most municipalities the Bell will rent space to the utilities in return for similar space on utility poles.

**Mr. Deachman:** But you do not know of a cable TV anywhere that is running on a Bell Telephone pole?

**Mr. Milligan:** Not that I am aware of. There may be, but certainly not to our knowledge.

**Mr. Deachman:** May I come back again to this other question: You are aware of the use of cable TV on telephone poles or communication poles, specifically, in these other instances?

**Mr. Milligan:** Yes. That is right.

**Mr. Deachman:** Thank you.

**Mr. Bell (Saint John-Albert):** On the same general line, I would like to ask if you could give us a brief rundown of your industry and tell us about the other competitors?

**Mr. Milligan:** Are you referring to our particular industry, the contracting industry?

**Mr. Bell (Saint John-Albert):** Yes.

**Mr. Milligan:** There are two or three other similar organizations. There is one in British Columbia. We are the only CATV contractor in Ontario that is actively engaged in this line of work. The field at this point is relatively limited because of the fact that we cannot expand into very large areas because of the monopoly that Bell has on the poles. Does this answer your question?

**Mr. Bell (Saint John-Albert):** Yes. I just wondered if there were any other companies similar to yours. Do I understand correctly that you say if Bell is not giving satisfactory service then you would probably apply to the Transport Commission for the privilege of pole rental to begin your construction?

Would this not be creating a monopoly for you? What I do not understand is who would compete with you?

**Mr. Milligan:** I am sure that if this area were opened up quite a number of other organizations similar to ours would be formed.

**Mr. Bell (Saint John-Albert):** The competition would take place for the franchise; there would be bidding, or offers made by you and other companies, and the pole rental probably would be the deciding factor.

**Mr. Duncan:** My understanding of the law as it is at present is that whoever goes into coaxial cable must get a municipal easement and our view is that that applies to The Bell Telephone Company as well as to competitors. Presumably the person who would approach the Board of Transport Commissioners would be this person who was successful in getting an easement from the municipality.

• 1120

**Mr. Bell (Saint John-Albert):** I see. In other words my monopoly contention is right, but it would be decided more by the municipality in the original instance?

**Mr. Duncan:** Because of their ownership of the streets.

**Mr. Bell (Saint John-Albert):** Do you know what has been the experience in the United States? You said that there are companies in competition there and that the poles are used more extensively. Perhaps you could tell us what you know about the situation in the United States and how the FCC has control over CATV and so on?

**Mr. Milligan:** I am not, I must confess, entirely familiar with the American scene, but I have, over the years, talked with a number of operators in various parts of the United States. They have described the method by which they do business down there, and it is somewhat different from ours. In most cases the operators I have talked with have been able to negotiate fair pole-rental agreements with the telephone companies in the various areas where they operate. Whether these are members of the Bell system in the United States, I am not sure. However, I do know that there are a number of systems that are installed on telephone lines in the United States.

**Mr. Bell (Saint John-Albert):** Yes; but you cannot tell us whether or not A.T. & T. have their own construction company, or do not permit concerns such as yours to use their poles?

**Mr. Milligan:** As far as A.T. & T. is concerned, I am not in a position to answer.

**Mr. Bell (Saint John-Albert):** To get back to my original question, the determination of whether or not Bell is giving satisfactory service along the lines of endeavour that you are interested in is not really important. You are merely asking for the privilege of competing where you think competition should be allowed and where you think you can do it profitably?

**Mr. Milligan:** Basically, yes.

**Mr. Bell (Saint John-Albert):** You are not asking anyone to determine whether or not Bell is giving satisfactory service. It is merely that you believe that individuals such as yourself should decide what looks to be a likely place into which you can move?

**Mr. Milligan:** That is right; and that we be allowed to compete on a fair and equitable basis.

**Mr. Bell (Saint John-Albert):** I come back, then, to the question of with whom you are going to compete. Presumably, as you say, it will be these other companies that will be built up like yours?

**Mr. Milligan:** We could really have no argument against Bell's coming in on the basis on which we are operating, but what we do object to is what we feel is unfair competition from Bell in these areas.

**Mr. Bell (Saint John-Albert):** Yes. You and these other companies would apply to the municipality in the first instance for the privilege, or the franchise, and there would be no reference to rates, or anything like that? It would just be an arbitrary type of decision who would get the franchise.

**Mr. Milligan:** Normally it would be on the basis of first come, first served. This has usually been the case in the past.

**Mr. Bell (Saint John-Albert):** And once you had this privilege it would be subject to negotiation of rates approved by the Transport Commission?

**Mr. Milligan:** Yes, I would say so.

**Mr. Bell (Saint John-Albert):** This would constitute quite an exclusive franchise to you. In other words, once construction had commenced you would not foresee other companies putting any further lines on the poles?

**Mr. Milligan:** No. Normally, no businessman would seriously consider going in to compete in an area in which an operator was already providing satisfactory service. The only situation that I can think of where another operator has gone in and overwired was where the first operator was not providing adequate service at a fair rate.

• 1125

**Mr. Bell (Saint John-Albert):** Thank you very much.

**The Chairman:** Mr. Reid.

**Mr. Reid:** Cable television in itself is basically a monopoly operation, then, is it not? For example, you get this in part of Ottawa. You obtain this franchise from the City of Ottawa. That makes it pretty well a monopoly situation.

**Mr. Milligan:** I would say that in the Ottawa situation this is the case; but the Ottawa situation, to the best of our knowledge, is unique in that it was the City Council who decided who would operate and where they would operate in the city.

**Mr. Reid:** How are these franchises normally allotted, then?

**Mr. Milligan:** Normally, it is a non-exclusive franchise. If my understanding is correct, for a town or city council to issue an exclusive franchise there has to be an act go through the provincial house to give them that power.

**The Chairman:** Have you finished, Mr. Reid?

**Mr. Reid:** No.

I am a bit surprised by that, because it was my understanding that Winnipeg had split up the city as well and provided franchises I think to two or three companies on an exclusive area basis.

**Mr. Milligan:** It was probably done in the same way that it was done in Ottawa. But these are the exception, not the rule.

**Mr. Reid:** I see. Basically the problem you face is that when Bell originally set up its



poles to provide telephone service there was no objection because it was a monopoly situation; but now that new needs in communications have come along Bell, you claim, is keeping them to itself by its control over the poles which it owns, backed by the federal legislation?

**Mr. Milligan:** That is right.

**Mr. Reid:** You would like to see these poles put in the position of, say, a common carrier, whereby the rates for rental would be set by an independent board such as the Board of Transport Commissioners, which is now part of the Canadian Transportation Commission, and would be available to all-comers? Is that correct?

**Mr. Milligan:** Correct.

**Mr. Reid:** The real control of the franchises would then be with city councils rather than with Bell, or, to put it more precisely, with city councils and the Bell Telephone?

**Mr. Milligan:** Yes.

**Mr. Reid:** Is the latter the precise way in which most of them are handled at the moment? Does Bell have a veto over a council's ability to award a franchise?

**Mr. Milligan:** In the areas where they own the poles, yes.

**Mr. Reid:** In those areas where they own the poles. And that would cover most of the large markets in which you would like to compete?

**Mr. Milligan:** This is correct.

**Mr. Reid:** Such as Toronto and Montreal?

**Mr. Milligan:** That is correct.

**Mr. Reid:** Is there any way in which the municipality could award the franchise and order Bell to permit the use of its poles at, say, fair and reasonable rates?

**Mr. Milligan:** Not that I know of.

**Mr. Reid:** In other words, unless the Bell group is excepted by the town council awarding the franchise you would say there would be no possibility of bringing this service to the people?

**Mr. Milligan:** Yes.

**Mr. Reid:** That is correct?

**Mr. Milligan:** Yes.

**Mr. Reid:** In other words, in those areas where Bell owns the telephone poles and where there is no competition from public utility poles, or hydro poles, or CN or CP, Bell does have a monopoly over the provision of cable TV?

**Mr. Milligan:** Yes.

**Mr. Reid:** And this monopoly is quite analogous to the monopoly it now enjoys in the telephone service?

**Mr. Milligan:** Exactly.

**Mr. Reid:** Your argument, then, is that this is not analogous to telephone service in that service can be provided by a number of operators and there is the opportunity for competition?

**Mr. Milligan:** That is right.

**Mr. Reid:** And you further make the argument that in some cases Bell has forced on cable operators inefficient equipment of its own manufacturer.

**Mr. Milligan:** I would say so, yes.

**Mr. Reid:** You gave an example of the copper...

**Mr. Milligan:** Copper taped cable.

**Mr. Reid:** As opposed to the aluminum jacketed cable.

**Mr. Milligan:** That is right.

**Mr. Reid:** And what you would like to see is Bell's poles reduced to the status of a common carrier, in the way that hydro is a common carrier?

• 1130

**Mr. Milligan:** Yes, that is correct.

**Mr. Reid:** Thank you, Mr. Chairman.

**Mr. Byrne:** The poles only.

**Mr. Milligan:** Yes; that is correct.

**Mr. Southam:** Mr. Chairman, most of the area that I was going to question on has been covered by Mr. Deachman and just now by Mr. Reid but I would like to ask Mr. Duncan one question. You mentioned the fact, I think, at the beginning of your dissertation that you are just a new company, you have not been in business too long? How far have your business activities carried you into the West? Have you been into Western Canada?

**Mr. Milligan:** We installed a system in a section of Vancouver, where we were working on British Columbia telephone poles.

**Mr. Southam:** In other words, you found your business association compatible, say, with the Saskatchewan public utility or telephone companies of Manitoba, Alberta and British Columbia?

**Mr. Milligan:** We have had no dealings in those provinces.

**Mr. Southam:** You have not?

**Mr. Milligan:** We have in British Columbia and in the Maritimes.

**Mr. Southam:** But if you did you would not anticipate having any problems in getting easement or rights to use their telephone pole systems, or what is your experience?

**Mr. Milligan:** Well, we were not actually involved in negotiations with the telephone companies. These negotiations had been made by the operator and we were, in this case, simply a contractor doing the work so that I cannot really answer that with authority.

**Mr. Southam:** But according to the statement you made, you would not anticipate having any problem in that area?

**Mr. Milligan:** No.

**Mr. Southam:** In other words, the inference I have been getting from your answers, and they are straightforward as far as I am concerned, is that the problem you run into is in areas where Bell Telephone has the franchise and is taking, more or less, a monopolistic attitude.

**Mr. Milligan:** This is our contention.

**Mr. Southam:** That is all, Mr. Chairman.

**Mr. Pascoe:** Mr. Chairman, I have been asking questions about underground cables because Bell has suggested that they are putting more cables underground all the time. In places where they put cables underground, could the CATV have permission to build poles along that same route?

**Mr. Milligan:** This would be at the discretion of the municipal authorities. Normally if the other services are going underground they would not allow a cable to go overhead.

**Mr. Pascoe:** They would not allow it? Bell itself could not refuse permission to go along the line they have underground?

**Mr. Milligan:** If they have the easement they could logically refuse another party permission to install cable in the area.

**Mr. Pascoe:** I have another question along this line. On page nine of your brief you refer to Bell Telephone Company's control over strategically located poles, then on page eleven you refer to its inventory of strategic poles and on page two to the fact that Bell has telephone poles needed for cable television. Do you suggest by this that Bell has erected pole lines that are not much in use now but still controlling any expansion of CATV cables? You refer to a strategic location several times and I am trying to get at whether they are trying to erect these poles with a definite idea of control.

**Mr. Milligan:** No, I do not think so.

**Mr. Pascoe:** You do not think so?

**Mr. Milligan:** No.

**Mr. Pascoe:** Do you think they might, if they get this extra capitalization of \$750 million, go in for putting up poles that would control it?

**Mr. Milligan:** It is possible. This had not occurred to us but it is possible.

**Mr. Pascoe:** Just one more question. I guess I was occupied when you were answering Mr. Byrne. You say here, on the last page:

We therefore respectfully submit that the proposed Bill be amended.

Did you make any definite reply to Mr. Byrne about how you would have this Bill amended; and definite wording that would include what you are asking for in this brief?

• 1135

**Mr. Milligan:** I feel it would have to be a new clause unless you considered it an amendment to section 3 of the 1880 Statutes. But I feel that if our request were met a new clause would have to be brought into the Bill.

**Mr. Pascoe:** I see. That is all I have, Mr. Chairman.

**Mr. Cantelon:** I have three rather subsidiary questions because I think it has been pretty well brought out in questioning that actually what you are asking is that the monopoly privilege of Bell be removed from

the use of their poles. In other words, that anybody should be able to use the poles if they get permission from the municipality. I was rather curious; you said that sometimes hydro poles were used. I was under the impression that it was impossible to use a coaxial cable on a hydro pole. Would there not be good deal of interference or is a coaxial cable so well shielded that you can put it on a hydro pole?

**Mr. Milligan:** It is well shielded to the extent that it can be operated within a certain distance of power. There has to be a standard clearance kept for safety reasons but interference is not really a consideration.

**Mr. Cantelon:** I have another question on the same technical line. When an underground service is put in, does not that consist essentially of a rather large-sized plastic pipe or something of that sort through which other cables are drawn?

**Mr. Milligan:** Very often but not always. As far as cable television is concerned, the cable is frequently installed directly in the ground with no additional conduit or protection, the protection being part of the cable itself.

**Mr. Cantelon:** What disturbed me, then, is there might be such cables already installed by the telephone company. How are you going to put your coaxial cable in the same place without having to tear up streets and all the rest of it?

**Mr. Milligan:** This is the big problem when going underground.

**Mr. Cantelon:** So there is no particular advantage in underground wiring, if you want to put a coaxial cable in, if you cannot draw it through existing conduits.

**Mr. Milligan:** That is right. Actually, in many instances ducts are available under various streets that could be used and we feel the same principle should apply to ducts as to poles. In other words, if there is space available there it should be made on a rental basis.

**Mr. Cantelon:** That duct, in fact, should be a common carrier; is that what you are getting at?

**Mr. Milligan:** Yes.

**Mr. Cantelon:** I was rather interested in some of the questioning with respect to the West. I live in Saskatchewan, so does Mr.

Pascoe and so does Mr. Southam and so far as I know, there are no cable televisions there at all. Do you know if there are?

**Mr. Milligan:** In Saskatchewan there is one in Estevan.

**Mr. Southam:** I was going to say I can help the witness. There is one in my home area.

**Mr. Cantelon:** That must be about the only one. You see, my understanding is that the reason there are none is that there are not enough stations there to make it worth while putting up a cable television. You cannot get enough channels.

**Mr. Milligan:** That is right.

**Mr. Cantelon:** Thank you.

**Mr. Byrne:** You say on page 2, and I am going back to this spectrum space

At present the Bell Telephone Company installs cable television systems and retains ownership thereof and rents spectrum space to individual operators.

You are a contractor and you sell the system.

**Mr. Milligan:** That is right.

**Mr. Byrne:** And under no circumstances have Bell or their subsidiaries sold the television system to an operator?

**Mr. Milligan:** Not to my knowledge.

**Mr. Byrne:** They have retained in every case the ownership of the system. Do they charge rent for the poles? Is it on a pole basis?

• 1140

**Mr. Milligan:** No, they charge rent on the basis of cable footage.

**Mr. Byrne:** If the operator to whom you are selling were given the right to instal on those poles, would he be paying on a footage basis or on a pole basis?

**Mr. Milligan:** He would normally pay on a pole basis, which would amount to roughly the same amount of money.

**Mr. Byrne:** Are there any instances of municipalities having control of the poles that belong to Bell Telephone, that is that they have, as has a public utility, actual control of the poles?



**Mr. Milligan:** Not if the poles are owned by The Bell. At least, not to my knowledge.

**Mr. Byrne:** Only in the case of their ownership of the power poles.

**Mr. Bell (Saint John-Albert):** This question arises out of the discussion on CATV. I understood you to say that in some instances, in fact in many instances, there is necessary municipal or provincial approval for a franchise and what I would like to ask you is this. If you have had a chance to look at this Bill, are you worried, as some others have stated they were, particularly the reeves and mayors of the municipalities of Ontario, that if we give these further powers to Bell in the Bill this might take away the need to get franchise approval from the municipalities and the provinces?

**Mr. Milligan:** Exactly.

**Mr. Bell (Saint John-Albert):** In the cases of these CATV privileges with which you are familiar—and I understand that you are not directly concerned with this, being just a part of the CATV approval—was Bell involved in any of these hearings? Let me ask it another way: do you know of any CATV approvals that Bell were involved in where municipal and provincial approval was not necessary?

**Mr. Milligan:** Yes. Oh, yes. I would say there have been a number of instances where CATV systems have been installed using Bell facilities where the municipality has not been in any way involved.

**Mr. Bell (Saint John-Albert):** Then your fear is that this legislation would further that.

**Mr. Milligan:** We feel that at this point The Bell do not really have the right to go into a town without approaching the authorities and obtaining the right-of-way for their television cables; that the fact that they have that right-of-way for telephone does not automatically give it to them for television and that they should negotiate in each instance a new right-of-way, which they are not doing. But if the Bill were passed in its present form they would not have to do that. Does that answer your question?

**Mr. Bell (Saint John-Albert):** Yes. It is helpful. Bell claim that one of the reasons they want this further legislation is to clear up the indefinite there may be in sectors; but

then you go further and say that they want too much. As has been pointed out, we may have to get some legal advice to find out the position of the original statutes and have some kind of a Department of Justice interpretation.

**Mr. Deachman:** I would be very much interested, and I am sure you would, to find out precisely what was the intent of the government and of the company when these were originated and just what the philosophy was behind the granting of these easements.

• 1145

**Mr. Bell (Saint John-Albert):** That is true. I do not worry, though, like Mr. Deachman, that we could not change it or clarify the law now under new circumstances.

**Mr. Deachman:** No, but all I ask is: is that what we are being asked here to do and is this part of our reference in looking at this Bill? I do not know.

**The Vice-Chairman:** Have you finished, Mr. Bell?

**Mr. Bell (Saint John-Albert):** Yes.

**The Vice-Chairman:** Mr. Reid.

**Mr. Reid:** I would like to quote very briefly from a submission that was made to the Committee on October 31, 1967, on page 162. It is a description of Bell's operations in the cable TV field.

Bell, however, offers a rigid type of lease-back arrangement, with cable television systems wishing to bring this valuable service to communities. The cable television system has to pay Bell the cost of laying both trunk and distribution cable in full, in advance of or by completion, at so much per foot—a substantial investment for the cable TV system. Bell then proceeds to "rent" back the cable plant to the cable TV system at so much a foot. The CATV system never really owns anything on this basis, although they pay handsomely for it, and this puts Bell in the enviable position of being a sort of leasehold landlord who could eventually own everything, lot, stock and barrel. This despite the fact they are given special government territorial protection to operate telephone service only.

Would you say this is a fair description of the way Bell operates in those areas having cable television systems?

**Mr. Milligan:** Yes, I would say so.

**Mr. Reid:** In other words it really puts the person who has gone out and got the CATV franchise in the position of being an agent for Bell. In other words, he is the middleman who provides the franchise and Bell makes the larger profit because of its ownership and its insistence on the ownership of the facilities to transmit the cable TV picture.

**Mr. Milligan:** I would say so.

**Mr. Reid:** Would you say this is where the profit is to be made in the cable TV?

**Mr. Milligan:** I would say your use of the word "larger" is perhaps not accurate because I think the operator at this point still makes a much larger profit than does The Bell Telephone Company.

**Mr. Reid:** But over a long period of time?

**Mr. Milligan:** Well, this is what frightens many operators. What happens when the present contract runs out? At some future date Bell could then impose a complete—

**Mr. Reid:** In other words, sir, there is absolutely no protection for the fellow who has shown the initiative to go out and get the contract except in so far as he has been allowed to write off his investment over a period of whatever the lease originally is. And because Bell maintains such a tight control over the equipment, by refusing to allow the cable TV operator to provide the original equipment himself, the danger is that Bell will be able to use this lever to pick up the franchises at a later time at perhaps less than what would normally be the going price.

**Mr. Milligan:** This is a distinct possibility and it certainly worries many operators.

**Mr. Reid:** Thank you.

**Mr. Leboe:** I would like to ask a supplementary question, Mr. Chairman.

**The Vice-Chairman:** Yes, Mr. Leboe.

**Mr. Leboe:** The whole thing indicates to me that The Bell Telephone is actually capi-

talizing on the franchise for the right-of-way. It is capitalizing on right-of-way, which right the present Bill, before any further alterations, does not provide it with.

**Mr. Milligan:** That is our feeling.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, if I may interject, I do not mean to criticize Mr. Leboe's question but they may or may not be capitalizing on this privilege; but in all fairness, Bell would say that it is being done on behalf of the taxpayers of the country. Whether it is being done efficiently in our best interests is more the argument, is it not?

**Mr. Deachman:** That is the point.

**Mr. Leboe:** You were saying that The Bell Telephone Company say that it is done in the best interests of the country.

**Mr. Bell (Saint John-Albert):** I am sure they would say that.

**The Vice-Chairman:** If there are no further questions, I would like to thank Mr. Forster, Mr. Milligan and Mr. Duncan for presenting their brief and answering our questions.

• 1150

**Mr. Deachman:** Mr. Chairman, before we rise I think we all would be interested in knowing how much further do we have to go before we can report this Bill? Could you give us some indication?

**The Vice-Chairman:** We do not have any further meetings scheduled from now until Christmas.

**Mr. Bell (Saint John-Albert):** How about December 22?

**The Vice-Chairman:** If anything new comes up you will be notified by the Clerk.

**Mr. Reid:** Now, we will have time to read all the evidence.

**The Vice-Chairman:** Thank you very much.

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HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

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THURSDAY, FEBRUARY 1, 1968

---

Respecting

Bill C-104, An Act respecting The Bell Telephone Company of Canada.

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WITNESSES:

*From the Bell Telephone Company of Canada:* Mr. M. Vincent, President;  
Mr. A. J. de Grandpré, Vice-President, Law; Mr. R. C. Scrivener,  
Executive Vice-President, Operations.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1968



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,	Mr. Horner ( <i>Acadia</i> ),	Mr. Pascoe,
Mr. Bell ( <i>Saint John-</i>	Mr. Howe ( <i>Wellington-</i>	Mr. Reid,
<i>Albert</i> ),	<i>Huron</i> ),	Mrs. Rideout,
Mr. Byrne,	*Mr. Jamieson,	Mr. Rock,
Mr. Cantelon,	Mr. Leboe,	Mr. Schreyer,
Mr. Deachman,	Mr. Lewis,	Mr. Sherman,
Mr. Émard,	Mr. McWilliam,	Mr. Southam,
Mr. Groos,	Mr. Nowlan,	Mr. Stafford—24.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

\* Replaced Mr. Andras on January 30, 1968.

## ORDERS OF REFERENCE

TUESDAY, January 30, 1968.

*Ordered*,—That the name of Mr. Jamieson be substituted for that of Mr. Andras on the Standing Committee on Transport and Communications.

*Ordered*,—That the Standing Committee on Transport and Communications be empowered to consider and report upon all aspects of transportation as they relate to the Atlantic Provinces, taking account of the conclusions and recommendations of the Atlantic Provinces Transportation Study, January, 1967, Volumes 1 to 12, prepared by the Economist Intelligence Unit Limited, and the Report of the Royal Commission on Transportation, 1961, Volumes 1 and 2, and recommend what measures should be initiated in order that the national transportation policy may be as fully implemented as possible in the Atlantic Provinces.

That the said Committee shall examine, in particular, the effectiveness of the Maritime Freight Rates Act with power to study and make recommendations concerning:

- (a) changes or alterations which may now be desirable in the Maritime Freight Rates Act; and
- (b) alternative methods of assisting transportation in the Atlantic Provinces either in addition to the Maritime Freight Rates Act or in substitution therefor in whole or in part with the purpose that maximum benefits be obtained by the Atlantic Provinces from the expenditure being made.

That for the purposes of this inquiry, the said Committee shall be empowered to adjourn from place to place within Canada; that the Clerk and necessary supporting staff be authorized to accompany said Committee, and that the Committee be authorized to engage the services of counsel, accountants, etc.

*Attest.*

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*



## REPORT TO THE HOUSE

WEDNESDAY, February 7, 1968.

The Standing Committee on Transport and Communications has the honour to present its

### ELEVENTH REPORT

Your Committee has considered Bill C-104, An Act respecting The Bell Telephone Company of Canada and has agreed to report it with the following amendments:

#### *Clause 4*

Delete.

#### *Clauses 5 and 6*

Renumber as Clauses 4 and 5.

#### *Clause 7*

Delete and substitute therefor new Clause 6 as follows:

"6. Section 5 of chapter 81 of the Statutes of 1948 is hereby repealed and the following substituted therefor:

"5. (1) It is hereby declared that subject to the provisions of the *Radio Act* and of the *Broadcasting Act* and of any other statutes of Canada relating to telecommunications or broadcasting, and to regulations or orders made thereunder, the Company has the power to transmit, emit or receive and to provide services and facilities for the transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electromagnetic systems and in connection therewith to build, establish, maintain and operate, in Canada or elsewhere, alone or in conjunction with others, either on its own behalf or as agents for others, all services and facilities expedient or useful for such purposes, using and adapting any improvement or invention or any other means of communicating.

(2) Notwithstanding subsection (1), the Company and its subsidiaries do not, however, directly or indirectly or by any other means, have the power to apply for or to be the holder of a broadcasting licence as defined in the *Broadcasting Act* or of a licence to operate a commercial Community Antenna Television Service.

(3) The Company shall, in the exercise of its power under subsection (1), act solely as a carrier, and shall neither control the contents nor influence the meaning or purpose of the message emitted, transmitted or received as aforesaid.

(4) If any equipment, apparatus, line, circuit or device not provided by the Company be attached to, connected or interconnected with, or used in connection with the Company facilities, such attachment, connection or interconnection shall be made in conformity with reasonable requirements of the Company.

(5) Any person who is affected by any requirements prescribed by the Company under subsection (4) may appeal to the Canadian Transport Commisison which shall hold public hearings to determine the effect of these attachments, connections or interconnections on the cost and value of the service to the subscriber, and thereafter decide if such requirements are reasonable and in the public interest.

The Commission may disallow any such requirements as it considers unreasonable or contrary to the public interest and may require the Company to substitute requirements satisfactory to the Commission in lieu thereof or prescribe other requirements in lieu of any requirements so disallowed.

The decision of the Commission is subject to review pursuant to Section 53 of the Railway Act.” ”

#### *Clause 8*

Delete and substitute therefor new Clause 7 as follows:

“7. For the purpose of carrying out its corporate powers the Company is empowered to purchase or otherwise acquire, and to hold shares, bonds, debentures or other securities in any other Company engaged in research and development work in areas of inquiry that relate to the objects of this Company and to sell or otherwise deal with the same provided that such other company, not being a subsidiary of the Company on the date on which this Act comes into force, does not manufacture products for sale to the Company or to other customers.”

#### *Clauses 9 and 10*

Renumber as Clauses 8 and 9.

#### *Clause 11*

Renumber as Clause 10 and amend in the English copy of the Bill only, by changing “Section 5”, on line 20 of page 7 to read “Section 3”.

On line 31, on page 8, change the period to a semicolon and add thereafter the words:

“and Section 378 (except subsection 1) of the Railway Act shall apply to the Company insofar as line or lines of telecommunications are concerned.”

#### *Clause 12*

Renumber as Clause 11 and amend on line 34 by adding the words “or retired employee” after the word “employee”, and on line 36 by adding the words “or retired employee” after the word “employee”.

#### *Clause 13*

Renumber as Clause 12.

*Clause 14*

Delete.

*Clauses 15 and 16*

Renumber as Clauses 13 and 14.

A copy of the Minutes of Proceedings and Evidence relating to this Bill (*Issues Nos. 3, 4, 5, 6, 7, 10, 12, 13, 14 and also Issue No. 42 of the Minutes of Proceedings and Evidence of the Standing Committee on Transport and Communications for the past session*) is tabled.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*



## MINUTES OF PROCEEDINGS

THURSDAY, February 1, 1968  
(18)

The Standing Committee on Transport and Communications met this day at 10.07 o'clock a.m. the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Groos, Jamieson, Lessard, Lewis, McWilliam, Macaluso, Pascoe, Reid, Rock, Schreyer, Sherman, Southam—(17).

*Also present:* Mr. R. C. Honey, M.P., Sponsor of the Bill.

*In attendance:* From the Bell Telephone Company of Canada: Mr. M. Vincent, President; Mr. A. J. de Grandpré, Vice-President, Law; Mr. R. C. Scrivener, Executive Vice-President, Operations.

The Chairman explained that there were a few items pertaining to the Atlantic Provinces tour to be attended to prior to discussing Bill C-104.

Moved by Mr. Lessard, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*, that the Clerk of the Committee be authorized to procure additional copies of the *Atlantic Provinces Transportation Study* and Volume 2 of the *MacPherson Report and Maritime Freight Rates Act* for the use of the Committee.

Moved by Mr. Lessard, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*, that the Chairman and/or Clerk of the Committee be re-imbursed for out-of-pocket expenses incurred while engaged in Committee business during the preparatory planning for the Atlantic tour.

Moved by Mr. Lessard, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*, that the Clerk be authorized to secure the services of a qualified stenographer to provide stenographic services to the Committee during the Atlantic tour.

Moved by Mr. Lessard, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*, that the Clerk be authorized to place paid advertisements in various Atlantic Provinces newspapers to inform interested parties of the hearings.

Moved by Mr. Lessard, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*, that the Clerk be authorized to secure the services of the following supporting staff:

- 1 Assistant Committee Clerk
- 1 Interpreter
- 2 Male Technicians/operators with complete portable recording apparatus
- 1 Console Operator.

The Chairman tabled a brief (distributed to members in December) on behalf of The Thorne Group Ltd. and this appears as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-11).

The Chairman introduced Mr. de Grandpré who, on behalf of the Company, commented on various aspects of the briefs which had been submitted to the Committee and on the various questions raised previously by members and interested parties.

The members questioned the Bell officials on Mr. de Grandpré's remarks.

At 12.40 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m.

## AFTERNOON SITTING

(19)

The Standing Committee on Transport and Communications met this day at 3.45 p.m., the Chairman Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Bell (*Saint John-Albert*), Byrne, Cantelon, Groos, Lessard, Lewis, Macaluso, Pascoe, Reid, Rock Schreyer, Southam, Stafford—(14).

*Also present:* Messrs. Honey and Saltsman, M.P.'s.

*In attendance:* Same as at morning sitting.

There being no further questions the Committee proceeded to the clause by clause study of Bill C-104.

Clauses 1, 2 and 3 were agreed to.

On motion of Mr. Reid, seconded by Mr. Lewis, Clause 4 was deleted.

Thereupon, Mr. Rock, seconded by Mr. Byrne, moved that a new clause 4 be added as follows:

Any savings plan involving the issue of shares to employees of the Company and approved by the Canadian Transport Commission may be extended to employees of subsidiaries designated by the Company without further approval of the Commission.

After discussion, Mr. Byrne withdrew his support for the motion and the motion was withdrawn.

Clauses 5 and 6 were re-numbered clauses 4 and 5 and were agreed to.

Old Clause 7 was deleted and the Chairman tabled new Clause 6 in replacement.

*New Clause 6.* Subsection 1 was agreed to.

On motion of Mr. Lewis, seconded by Mr. Pascoe, Subsection 2 was amended by deleting the words

"without in any way restricting the generality of"

and inserting the word

"notwithstanding".

Subsection 3 was agreed to.

Subsection 4. On motion of Mr. Lewis, seconded by Mr. Groos, the sixth last word in the subsection "such" was deleted.

Subsections 4 and 5 were agreed to.

New Clause 6, as amended, was agreed to.

Old Clause 8 was deleted and the Chairman tabled new Clause 7 in replacement.

Moved by Mr. Lewis, seconded by Mr. Schreyer that new Clause 7 be amended by adding the words

"provided that such other company does not manufacture products for sale to the Company or other customers."

After discussion the amendment was withdrawn and the new Clause 7 was permitted to stand.

Old Clauses 9 and 10 were re-numbered 8 and 9 and were agreed to.

Moved by Mr. Byrne, seconded by Mr. Bell that old Clause 11 be re-numbered Clause 10 and amended in the English copy of the Bill only, by changing "Section 5" on line 20 of page 7 to read "Section 3". (The purpose of this amendment is to correct a non-consequential administrative error in the English copy of the Bill). Motion agreed to.

A further amendment to old Clause 11, new Clause 10, was moved by Mr. Lessard, seconded by Mr. Cantelon, that line 31 on page 8 be amended by changing the period to a semi-colon and adding thereafter the words

"and Section 378 (except subsection 1) of the Railway Act shall apply to the Company insofar as line or lines of telecommunication are concerned."

Motion agreed to.

On motion of Mr. Lessard, seconded by Mr. Southam, old Clause 12 was re-numbered Clause 11 and amended, in line 34, after the word "employee" by adding the words "or retired employee" and, in line 36, after the word employee by adding the words "or retired employee".

Old Clause 13 was re-numbered Clause 12 and agreed to.

On motion of Mr. Groos, seconded by Mr. Cantelon, old Clause 14 was deleted as being redundant.

Old Clauses 15 and 16 were re-numbered 13 and 14 and agreed to.

On new Clause 7 it was moved by Mr. Lewis, seconded by Mr. Schreyer that new Clause 7 be amended by changing the period to a comma and adding thereafter the words

"provided that such other company, not being a subsidiary of the Company on the date on which this Act comes into force, does not manufacture products for sale to the Company or to other customers."



After discussion, at 5.30 p.m. the Chairman declared a recess to permit individual discussion on the amendment. At 5.50 o'clock p.m. the Committee re-convened. Mr. de Grandpré made a brief statement on behalf of the Bell Telephone Company and after brief discussion the motion was agreed to and new Clause 7 was agreed to.

The preamble and title were agreed to.

The Bill, as amended, was agreed to.

The Chairman was instructed to report Bill C-104, An Act respecting the Bell Telephone Company of Canada, as amended.

At 6.00 o'clock p.m., the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

## EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, February 1, 1968

• 1008

**The Chairman:** Gentlemen, I see a quorum. Before hearing the Bell Telephone Company witnesses this morning we have a small amount of business to take care of regarding the trip that this Committee is taking to the Atlantic Provinces.

I have five motions before me, and perhaps we can move them all at once. I will read them:

That the Clerk of the Committee be authorized to procure additional copies of the Atlantic Provinces Transportation study and Volume 2 of the MacPherson Report and the Maritime Freight Rates act for the use of the Committee.

That the Chairman and/or Clerk of the Committee be re-imbursed for out-of-pocket expenses incurred while engaged in committee business during the preparatory planning for the Atlantic tour.

That the Clerk be authorized to secure the services of a qualified stenographer to provide stenographic services to the Committee during the Atlantic tour.

That the Clerk be authorized to place paid advertisements in various Atlantic Provinces newspapers to inform interested parties of the hearings.

That the Clerk be authorized to secure the services of the following supporting staff:

- 1 Assistant Committee Clerk
- 1 Interpreter
- 2 Male Technicians/operators with complete portable recording apparatus
- 1 Console operator

Would someone move the motions I have read?

**Mr. Lessard:** I so move.

**Mr. Bell (Saint John-Albert):** Would you please read again the motion dealing with publications in newspapers.

**The Chairman:**

That the Clerk be authorized to place paid advertisements in various Atlantic Provinces newspapers to inform interested parties of the hearings.

**Mr. Bell (Saint John-Albert):** I will second the motions.

Motions agreed to.

**The Chairman:** Our witnesses for today are Mr. Vincent, Mr. de Grandpré and Mr. Scrivener.

To my right, as you gentlemen are aware, is Mr. M. Vincent, President of the Bell Telephone Company of Canada. Next to him is Mr. A. J. de Grandpré, Vice-President, Law, and then Mr. R. C. Scrivener, Executive Vice-President, Operations.

• 1010

This Committee has completed hearing all of the witnesses who wished to be heard. The Canadian Business Equipment Manufacturers Association Inc, originally advised that they might come to this Committee. However, we have been further advised by a letter dated January 17, 1968, from their general manager and also their solicitor, Mr. A. D. McAlpine, Q.C., that their Board of Directors has decided not to appear before this Committee. I will table the letter and file it with the Clerk. Perhaps I should read it:

Mr. Joseph A. Macaluso,  
Chairman,  
Standing Committee on  
Transport & Communications,  
The Committee and Private  
Legislation Branch,  
House of Commons,  
Ottawa, Ontario.

Dear Sir:

I refer to the telephone conversation which A. D. McAlpine, Q.C., had with you on December 19, 1967, when he mentioned that our Association might wish to file material with your Committee rela-

tive to Bill C-104. You scheduled a meeting of the Committee to hear our brief on Thursday, January 25, 1968. We appreciate your very prompt and courteous consideration of our request for a hearing.

This letter will confirm A. D. McAlpine's advice by telephone call to your Secretary in Ottawa on Friday, January 12, 1968, of our wish to withdraw our request for a hearing. I understand that the appointment for January 25 has been cancelled accordingly.

Our Association is, of course, concerned about the implications of the Bill and, more importantly, about the proper relationship between regulated and non-regulated activities.

We believe that this is a subject which has vital significance for the Canadian economy both now and in the future. Since the subject raises serious legal, technical and economic questions of far-reaching effect, we feel that a thorough study should be undertaken to examine these problems in all their aspects before the Bill is passed in its present form and that passage of the Bill might well be deferred until these studies have been completed.

We have concluded that there is not time to prepare an adequate brief for presentation to your Committee and, therefore, we have decided not to file a brief at this time.

We do want to express again our appreciation for your courteous consideration of our request for a hearing and to assure your Committee of our continued co-operation.

Respectfully yours,

G. D. WYND  
General Manager

I advised them by telephone that they certainly had sufficient time to prepare a brief and that we were not restricting them with respect to a time limit. I think their reasoning, that they did not have time to prepare an adequate brief for presentation to this Committee, is not on very sound ground, but there is the letter.

We also have a letter directed to the Clerk of the Committee, dated January 25, 1968. It

is signed by a Michal V. Holt, and it reads as follows:

January 25, 1968,  
619 Avenue Road, Toronto 7.

Mr. R. V. Virr,  
Clerk of the Committee,  
Standing Committee on Transport and  
Communications,  
House of Commons,  
Ottawa.

Dear Mr. Virr.

I recently have been harassed by Bell Telephone representatives as a result of my testimony on November 30 before the Committee concerning the Ericafon headset in use in my home. The enclosed letter from Bell Telephone states that they began an investigation into my records as a result of my testimony appearing on Page 350 of the transcript of the hearing. During that testimony, the Vice-President of Bell Telephone (Mr. Scrivener) was observed to make extensive notations regarding my comments on the Ericafon. It now appears that he personally instructed his representatives to begin this harassment which has taken the form of numerous telephone calls, visits and even monitoring of my line.

It is my understanding that testimony before a House of Commons Committee is for the use of the members and can not be utilized by other parties to the detriment of the witness or other interested parties.

Would you please bring this matter to the attention of the Chairman and members of the Committee, and if possible advise me as to my rights in this situation, and what steps can be taken to protect me from any further recriminations as a result of my appearance before the Committee.

Yours very truly,

(signed)  
Michal V. Holt.

• 1015

I have discussed this with Mr. de Grandpré and they will take care of this letter in their presentation today.

**Mr. Lewis:** What do you mean by "they will take care of" it?



**The Chairman:** I mean they will comment on it.

The representatives from the Bell Telephone Company with us today will be our last witnesses. In accordance with the plan of the Committee when we first started these hearings it was agreed that we would hear representatives of the Bell Telephone Company as the first witnesses and then we would hear all the witnesses who wished to present briefs. The Bell Telephone Company would then come back at the end and comment on the briefs which had been presented and answer any further questions of the Committee before we move into the clause by clause study of the bill. However, I should point out to the Committee that I have met with Mr. de Grandpré on a number of occasions in the past month to discuss what amendments this Committee should consider after having heard and read the various briefs from individuals, associations and government departments. We have also met informally with the Steering Committee to go through some of the suggested amendments, and they will also be commented upon and brought forward by Mr. de Grandpré today.

With those few remarks, we will now commence. Mr. de Grandpré.

**Mr. A. J. de Grandpré (Vice-President, Law, Bell Telephone Company):** Thank you, Mr. Chairman. As indicated by the Chairman, these hearings have now taken place over a period of close to 12 months. The President and other officers of the Company have attended these meetings and listened to the representations that have been made. We have tried to identify the areas which apparently caused some concern, whether expressed by witnesses who appeared or by members of the Committee.

As indicated, we had discussions with the Chairman, with the Steering Committee and with some government departments. The purpose of these meetings was to try to develop a bill that would meet two objectives. First, the national objectives as seen by this Committee and, at the same time, the main objective of the Company, which is to provide the best service possible to the subscribers at the lowest possible cost. Bearing these two objectives in mind, we would like to make some comments on some of the representations that were made, as I said, either by members of the Committee or by the witnesses.

I would like to preface my remarks by making a short comment on the concern that was expressed at one time about the fact that we had filed an application for a bill while an investigation by the Combines Branch was going on. I would like to set the record straight on this score. The application for the bill was filed on October 14, 1966, and the investigation came to our knowledge on November 29, 1966.

When this knowledge came to us we were only aware that an investigation into the industry had been launched. If you remember the words of Mr. Henry, he said that an investigation had been started into the manufacture, production, distribution, purchase, supply and sale of communications systems, communication equipment and related products.

We did not volunteer the information that an investigation was underway because, rightly or wrongly, we felt that we were bound by section 28 of the Act, which states that all enquiries under this Act shall be conducted in private. So, that explains our position on this point.

#### • 1020

In commenting on some of the remarks that were made here, I would first like to touch upon the question of broadcasting. There were representations made to us by the Secretary of State that the words "the Broadcasting Act" should be inserted after "the Radio Act" in connection with section 7, which appears on page 5 of the printed Bill.

The original text of section 7, which you have before you, reads:

It is hereby declared that subject to the provisions of the Radio Act, and so on.

At Miss LaMarsh's suggestion, we would be prepared, of course, to insert the words "and the Broadcasting Act" after "the Radio Act".

The Department of Transport has also made a suggestion to us to the effect that the expressions we used in the opening words of section 7 were not broad enough. It was suggested to us that words such as "and of any other federal statutes relating to telecommunications or broadcasting and to regulations or orders made thereunder" should be inserted after the new words "and the Broadcasting Act". We have no objection to this; we think it is quite proper.

Some concern has also been expressed about the fact that in clause 7 we were using

the words, "to transmit, emit or receive" signs, signals, etc. I would like to indicate why these expressions were used.

There are three reasons for the words, "emit, transmit or receive" having to be inserted in this paragraph. First, there is a technical aspect to this problem. In a microwave system the transmission of the signal appears to be a continuous process. However, according to the engineers this process is in fact composed of three different aspects. There is first an emission of the signal. The signal is then transmitted over the airwaves and then it is picked up by the microwave station and it is received at that point. Instantaneously this microwave again acts as an emitter and the signal is transmitted over the air waves and is received at another microwave station. So, you have a series of emission, transmission and reception. This is the first reason the words had to be used.

• 1025

The second reason is again a technical one. As you probably know, in Alma in the Lac St-Jean area of Quebec we have a station which serves the northern territories. Some times, because of climatic conditions, service cannot be given instantly to subscribers. The message is sent—let us assume from Montreal or Toronto—to Alma, then it cannot be transmitted to its destination and it is temporarily stored at Alma. When conditions permit this signal is again emitted so that it can be received by the party called. Again you have a problem of emitting and transmitting at that point.

This problem—and this is the third reason we have used these words—also confronted the American Congress when they enacted the Communications Act of 1934. This arises out of the definition of the expression "common carrier" or "carrier", which has been used here extensively by several people during the discussions on this Bill. When they describe "common carrier", I must admit that as a lawyer I am not too happy when I read such a definition, because they define the words by using the same words, which I understand is quite a bad practice. They say "common carrier" and I quote from Section 3(h) of the Act:

"Common carrier" or "carrier" means any person engaged as a common carrier for hire, in interstate or foreign communication by wire or radio or in interstate or foreign radio transmission of

energy, except where reference is made to common carriers not subject to this Act;

So, in order to understand what they mean by a "carrier" you have to look at the definition of "wire communication" or "radio communication". When they speak about "radio communication" or "communication by radio" this is what they say:

... means the transmission by radio of writing, signs, signals, pictures and sounds of all kinds, including all instrumentalities, facilities, apparatus and services ...

Then in parenthesis they say:

(among other things, the receipt, forwarding, and delivery of communications) incidental to such transmission.

They were faced with the same problem of trying to cope with this technical difficulty and they did it in this fashion.

I feel that the Canadian legislator has done a better job of defining these words in the COTC Act, the Radio Act, the Broadcasting Act and in the Criminal Code than the American Congress. I have tried in the words I have used in section 7 to stay as closely as possible to the Canadian definition of "communications".

Again in connection with broadcasting, there has been some concern expressed that we would be authorized to become "broadcasters" in a very broad sense. When I appeared before this Committee I tried to reassure members that we had no such intention. I will read an answer I gave at page 84 of the transcript:

Well, we made it clear again in 1948 that we did not intend to be broadcasters and we have not become broadcasters. What we said then was, and I am quoting from page 75 ...

• 1030

That refers to the transcript in connection with the 1948 Bill, and I am now quoting from page 75:

While, as already stated, the Company has no intention of engaging itself in radio or television broadcasting, it is clear that the telephone companies have played an important part in the development of radio broadcasting by providing connecting links between studios or pick-



up points and broadcast transmitters and between radio stations at widely separated points to permit simultaneous broadcasting of program material over a wide area.

Then I went on to say:

These were the words we used then and I think we have lived to the very letter of this statement. We have not become involved in broadcasting. We have only been involved in the job of providing good service as a common carrier.

So, we have given these assurances. We have given them in our answers to questions put by members of this Committee and if it is the feeling of the Committee that these assurances should find their way into the act, we certainly have no objection because it simply confirms what we have already taken as a public stand.

Now, another aspect of the bill which has given some people concern is the CATV aspect. Again, we have indicated to this Committee that we have no intention of becoming CATV operators. Again, if it is the feeling of this Committee that such assurances should be included in the act itself, we certainly cannot have any objection to translating to legislation what our intentions have made clear.

In connection with the CATV problem, some representations were made about the problem of pole attachments or the permission for CATV operators to attach their cables to public utilities poles. On this point, there are some facts that have to be borne in mind.

The first one is that we think the CATV group, as commercial entertainers are only one group of persons that could ask for pole attachments and it could very well be that entertainment people would have a request for a pole attachment on the poles; then the industrial TV people might wish to have their pole attachments on the poles; then the educational TV people could feel exactly the same way, so that you would have a multiplicity of cables over the streets.

We are, as you know, trying to put these cables underground; we are making a lot of progress in this direction and I feel that if you have a lot of CATV or ITV or ETV people also attaching to these, poles, this will certainly not render the job of putting these cables underground easier.

But this is not, I think, the main aspect of the problem. I think that the main aspect is that cable TV is only one type of communications that can be supplied by the carrier and as common carrier or as carrier of messages, to use the example that was used here on several occasions as part of the electronic highway, the CATV operators should, of course, have access to the highway that the common carriers will provide and everybody who wishes to have access to this highway should be given an opportunity to do so.

This is making full use of the communications facilities that we have to instal in order to provide communications service and in this connection I would like to say that when this whole problem of communications is looked into, there is no reason why this aspect of our operations should not be equally regulated in the same manner that the telephone service is regulated, provided that those that have access to the electronic highway are equally regulated in their dealings with us. So that the toll to be paid to get on the electronic highway, again to make reference to the comparisons that were made, would be the subject of control by a regulatory body.

• 1035

**Mr. Lewis:** Mr. de Grandpré just for the purpose of clarification are you suggesting that be included in some bill?

**Mr. de Grandpré:** Yes, I think we should not endeavour to solve all the communications problems in connection with a particular company's private bill. This is a problem that will have to be looked at eventually by some task force to make sure that all aspects of the problems in connection with the common carrier's activities are properly regulated.

**Mr. Vincent:** But we are still ready to have this in the bill.

**Mr. de Grandpré:** Oh, yes; as the President suggests, we are prepared to insert words to the effect that we will not be CATV operators so there will not be any misunderstanding in this connection. Discussions were held between the Company and the CATV operators and I think we gave them all the necessary reassurances in this connection.

**Mr. Rock:** Mr. Chairman, the CATV operators did not come here at all to appear...

**The Chairman:** Mr. Rock, I think we should let Mr. de Grandpré finish and then we can ask him questions. Order, please.



**Mr. de Grandpré:** Another problem that was identified during the discussion of the bill was the fear that the powers sought would give us the necessary authority to become involved in publishing activities, or that we would mould the thought or thinking of Canadians. This fear was expressed by Mr. Groos, for instance, at page 97 of the transcript. Would that have had something to do, in your minds, with facsimile type transmission, as Mr. Groos indicated? Mr. Orlikow, at page 83 of the transcript, expressed similar fears that we would be involved in publishing.

There again we appreciate the reasons why this Committee, which has to protect the public interest, should not give us the necessary powers over the contents of the message. I think it would be wrong for this Company to have the power to control the contents of the message or to influence the message in any way. We should have the broadest possible powers to transmit messages but so far as controlling the message itself is concerned, we should not have such a power and again we are prepared to introduce some words that would clarify our position on this very important issue.

**Mr. Schreyer:** What clause would that have reference to?

**Mr. de Grandpré:** That would be in connection with clause 7, I suppose. Some amendment could be introduced after the powers outlined in the first paragraph of clause 7 dealing with the emission-transmission of intelligence. It could be indicated that we have no intention of controlling the contents or influencing the meaning or purpose of the message, or words to that effect.

• 1040

Now, turning to clause 4 of the bill this clause, as you undoubtedly recall, deals with the jurisdiction of the Canadian Transport Commission over the issue of our shares. We included this clause in the bill because we felt that the basis of regulation having changed since the 1966 judgment of the Board of Transport Commissioners this type of regulation was no longer necessary because the pressure was on the company to obtain more than the maximum issue price for the stock because the number of shares had really nothing to do with the earnings that were authorized by the Board. If dealing on a 6.6 per cent basis the amount of money was the guiding factor, and the number of shares

involved in the total amount of capital became irrelevant.

Now, there has been strong—

**Mr. Lewis:** I do not understand that.

**Mr. de Grandpré:** Under the old basis of regulation, Mr. Lewis, the judgment of 1958 indicated that \$2.43 per share was the maximum level of earnings per share that was authorized by the Board. Assuming that you wanted \$100 of new capital, you could issue—to take simple figures—four shares at \$25 or you could issue one share at \$100. If you issued one share at \$100 you would be entitled to only \$2.43 on your investment because there was only one share. If you issued four shares, then you would be entitled to four times \$2.43; so that the number of shares had a direct bearing on the total earnings of the company under the old type of regulation.

Under the new type of regulation that was instituted by the Board following the 1966 judgment, the number of shares became absolutely irrelevant. It was the total number of dollars invested in the business that became the yardstick, if you wish, to determine the level of earnings. This yardstick was, in the 1966 judgment, said to be 6.6 per cent under conditions prevailing at that time. So, whether you had four shares or one share, you still had \$100 invested in the business and therefore you were only entitled to 6.6 per cent on this investment.

So the price of the issue became an irrelevant factor so far as the subscriber was concerned. For this reason, rightly or wrongly, we felt that this was a redundant regulation. We have listened carefully to the representations made by some members of this Committee, by the mayors and reeves, by the Canadian Federation of Mayors and Municipalities, and by other groups, and we have come to the conclusion that some people are uneasy about the removal of this kind of control by the Canadian Transport Commission over the issue of our shares.

If it makes people uneasy, although we still feel that it is unnecessary regulation, we are quite prepared to drop this clause 4 from our bill and leave the Canadian Transport Commission the regulatory body over the issue of shares as to the amount, terms, and conditions of this issue.

**Mr. Schreyer:** While you are on this particular clause, Mr. de Grandpré, an amend-

ment to clause 4 has been circulated. I am not sure whether you are proposing it, or whether someone else is.

**The Chairman:** I gather that this is Mr. Rock's; did you circulate this, Mr. Rock?

**Mr. Rock:** Yes.

**Mr. Bell (Saint John-Albert):** We do not want to get into that now.

• 1045

**The Chairman:** No, let us leave this for now. Let us finish this and then we can go into the questioning of it afterwards.

**Mr. Schreyer:** That is fine, Mr. Chairman.

**Mr. de Grandpré:** A fifth point that I would like to touch upon is the question of foreign attachments or interconnections—the problem raised by Mr. Holt in this letter.

You hear some remarks to the effect that all the subscribers of the Telephone Company should be permitted to own their equipment, that they should be permitted to buy this equipment, and that there is no reason why it should be still under the control of the Telephone Company as it is today.

At first blush some of these arguments appear to make some kind of sense, but when you analyse them I think you will appreciate the reasons why it is essential that the Telephone Company keep control over the equipment that is attached to the system.

The first reason is that there is a compatibility problem. We have indicated here, when we presented our brief, that the equipment which is installed may last something like 35 or 40 years before it becomes obsolete. So, any piece of equipment that is attached to the system must be compatible with the equipment that has been installed 30 or 35 years before, but it also has to be compatible with the other equipment that will be installed in the future, so that whenever you decide to introduce some new equipment on the system this very important factor has to be borne in mind; otherwise the cost of improving the system would be completely out of proportion with this new equipment that you want to insert on the system.

The second problem is that it is most important that the equipment—the terminal equipment, the set—be maintained up to date at all times. We are spending millions trying to improve the quality of the transmission

over the network. All this money would be absolutely lost if the set which is on your desk were not exactly up to date, because it would be destroying at the very end the effort and the money that had been put in over the transmission system to improve its quality. So, this is another reason why it is important that the money spent on the outside plant, on the switching plant, should not be lost just because a piece of equipment is inadequate at the end of the line.

Some people have made comparisons here between the power systems and the telephone systems. I think it is important to underline that there is a basic essential difference between a toaster, refrigerator, and a telephone set. If your toaster does not work you are the only one to suffer; if your refrigerator does not work you are the only one to suffer; if the telephone system does not work adequately then people are trying to get in touch with you and they cannot, and then they report that the line of Mr. So and So is out of order. We have to dispatch persons to make sure there is nothing wrong with the lines, and you can well imagine the amount of money that would be spent and lost on what I would call unnecessary reports of bad equipment because it would not be the Company's equipment, it would be the subscriber's equipment.

Another important difference between the telephone system and the ordinary power equipment is that there is no interconnection between the electrical apparatus and telephones. You have to bear in mind that any telephone set in the territory that is served by the company can be switched almost instantaneously, within five, six, ten or twelve seconds, with 100 million-odd other telephones on the North American continent. This is something that has to be planned as a total picture and certainly not solely as pieces out of giant jigsaw puzzles.

• 1050

**Mr. Byrne:** How many millions did you say?

**Mr. de Grandpré:** One hundred million and more. I cannot give you the exact figures.

**Mr. Byrne:** It is not just a million.

**Mr. de Grandpré:** No, it is a hundred million telephones and more. Then there is a technical problem, as I said, to these foreign attachments or interconnections, and there is also an economic problem. Some of the



attachments that people would like to install can be bought from catalogues and from stores in the United States and even in Canada, and this equipment is usually the most remunerative equipment leased by the company. I am thinking of the antique sets or the dial-in-hand set, the trimline that you have undoubtedly seen in the United States and the Ericafo, to take Mr. Holt's example. If these sets are attached to the system then those people who have the means to pay for this additional luxury deprive the company of the basic revenue requirement which will affect the cost to the ordinary subscriber. This could very well lead to a loss of revenue which would have to be compensated for by additional charges for the basic telephone set.

**Mr. Lewis:** Excuse my stupidity—I do not have any sympathy with the request for foreign attachments, I do not know enough about them—but I do not quite follow your explanation.

**Mr. de Grandpré:** I will try to make it very clear and simple. Take for example the antique set situation at present. We have introduced a tariff under which you can buy an antique set and it can be attached to the system, but it can only be attached to the system provided the set is tested by the company to make sure that it is compatible with the system. Once we have tested it we find that it is either compatible in its present form or that we have to replace certain parts to make it compatible with the system. Once these steps have been performed the set is returned to the customer, who can then use it. We charge \$25 for testing the set and undertaking maintenance during its lifetime. Then there is a service charge of \$5 to connect the set and there is a standard monthly charge for an additional line in your house. What Mr. Holt was doing, or what other people may do, for instance, is go to Simpsons-Sears Limited or to another store or a catalogue company, and buy the kind of set that carries a plug that can be fitted into a house jack. Presumably nobody hears about it and they have the service of an additional line to a set for which they have not paid the company anything, and which is in violation of the tariff. The net result, if you multiply these cases, is that the company will not be paid "X" thousands or hundreds of thousands of dollars for these services which the people are getting without paying their fair share.

When you analyse the revenue requirements of the company to reach a proper level of earnings in order to finance the company, these are part of the revenues that are included in the total picture. If you are short of the total revenues which are required to operate the company because too many people have taken this kind of an approach to foreign attachments, then the ordinary Tom, Dick and Harry, the basic subscriber, the fellow who is the bread and butter of the operation, is going to have to compensate for this loss of revenue. If he does that, then I say the pressure is against an increase in the basic cost of service over the long haul. This is something which has to be borne in mind when you study this problem off foreign attachments.

I would like to make a further comment on the question raised by Mr. Holt as to why we acted that way. There is a provision in our tariff to the effect that if equipment which is not provided by the company is used on the company's lines, cables or systems that we have a duty to make sure that this subscriber, who is in violation of the tariff, complies with the tariff. If he does not comply with the tariff or if he does not pay the charges, then we have no alternative but to terminate the service as far as he is concerned. There have been decisions in the United States—I am not aware of any such decision in Canada—to the effect that if a public utility does not apply its tariff when it is legally in force, then the company is discriminating in favour of the fellow who is violating the tariff. If you happen to be Mr. Holt's neighbour and you have an Ericafo set on which you have paid \$25 for testing, \$5 for connecting and \$1.25 a month for service, you may say, "Why am I being treated differently from the fellow who is violating the tariff?" I think we have no alternative but to act against a subscriber who, in fact, is violating the tariff. That is the position we have taken, because if we do not do this it is an invitation to violations and it is discrimination against those who are prepared to abide by the law.

**Mr. Groos:** While you are on the subject, Mr. Chairman, may I ask a question of the witness? I only heard the letter read out by the Chairman, but it mentioned this business of eavesdropping or monitoring a line. Could you enlighten us on that, sir?

**Mr. de Grandpré:** I am certainly not aware that it is being done, but as Mr. Scrivener's



name is mentioned in the letter perhaps he would like to make some comments on this.

• 1100

**Mr. R. C. Scrivener (Executive Vice-President (Operations) The Bell Telephone Company of Canada):** We have a process for electrical testing, but this does not involve any connection through which you can listen. If, according to our records, a certain line has so many telephone instruments on it, we can test that line electrically to see whether there is additional electrical impedance or electrical apparatus connected to it over and above what our records show there should be on the line. We have this kind of test that we can put on lines and we use it to find out if there are attachments to lines over and above those in our records. This is an electrical test. It is a test which shows the amount of resistance on a certain physical electrical circuit, and it in no way involves the act of hearing, or overhearing, or recording, or does it involve us in any way with the use that is made of the line. I just wanted to make that clear.

**Mr. Groos:** It was an electrical measurement test that was actually being done and it was not an audio eavesdropping?

**Mr. Scrivener:** That is right, Mr. Groos.

**Mr. Jamieson:** Does this test tell you the location of the additional equipment?

**Mr. Scrivener:** Not specifically, although it would tell us that it is somewhere on the line and within a certain number of feet. As you know, the wheatstone bridge type of measurement test can give you a fault location within a certain number of feet.

**Mr. Byrne:** Does it make a noise in the subscriber's house?

**Mr. Scrivener:** No.

**Mr. Byrne:** How would he know?

**Mr. de Grandpré:** In order to complete my remarks in connection with the tariff, I have before me Rule 9, on which we relied to proceed as we did. Rule 9, of the General Tariff, which had been approved by the then Board of Transport Commissioners, reads as follows:

The Company's equipment and wiring shall not be rearranged, disconnected, removed or otherwise interfered with, nor shall any equipment, apparatus, circuit or device which is not provided by

the Company be connected with, physically associated with, attached to or used so as to operate in conjunction with the Company's equipment or wiring in any way, whether physically, by induction or otherwise, except where specified in the Tariffs of the Company or by special agreement. In the event of a breach of this rule, the Company may rectify any prohibited arrangement or suspend and/or terminate service as provided in Rule 35.

**Mr. Schreyer:** Mr. Chairman, on this very point I can see the necessity of having such a provision with regard to foreign attachments that have an operating mechanism that may or may not be compatible with Bell's system, but what about foreign attachments that do not have an operating mechanism? I am thinking specifically and exclusively of the actual shell, the holder in which the operating mechanism is located. Why should Bell have anything to say about a non-operating device like the decorative shell of a set?

**Mr. de Grandpré:** This is why we are providing this special rule about the Ericafon or the antique sets, which are just the shells. The appearance of the telephone is different but the inner parts are tested to make sure that the sets are compatible with the system. That is why we introduced that rule, to specifically meet this demand by the subscribers. For instance, if I am decorating my home and I wish to have a set which looks like a 1900 set, it is permissible to do this provided the inner parts of the set are tested to make sure that it is compatible with the system.

• 1105

In connection with this problem of foreign attachments, some representations were made to the effect that the requirements imposed by the Company could work to the detriment of some people. We are prepared to admit that we should make our case in public for these requirements. We would be prepared to see some words in the act which would indicate that if the company requirements are such that some people feel they are aggrieved by such requirements, then an appeal could be taken to some body which could be indicated at the discretion of this Committee. This would be a body that would hear appeals from people who believe that their rights have been affected.

In this connection, however, I would like to underline two problems. I think the body which is going to hear these cases which are appealed should be staffed in such a way that they can cope with the two problems involved, namely, the technical aspect of the problem and what I call the economic aspect. The technical aspect has to do with the compatibility of the equipment and the economic aspect has to do with the impact that such non-company owned equipment would have on the basic rates paid by subscribers. Furthermore, I think one would have to take into consideration in studying this problem the impact which this could have on the Canadian economy as a whole if, for instance, the effect of this would be the introduction into the system of equipment that is manufactured exclusively outside of Canada. This would have an economic impact on the country. Therefore the body that will look into this problem of foreign attachments will have to be staffed to deal with these issues.

**Mr. Lewis:** What is this, an appeal tribunal whose decisions Bell would have to accept?

**Mr. de Grandpré:** That is correct, Mr. Lewis.

**Mr. Lewis:** Not merely an inquiry or investigation.

**Mr. de Grandpré:** No. Quite frankly, my feeling is that there should be an appeal to the Canadian Transport Commission, which is equipped through their own staff to deal with the technical aspects. They have transmission engineers, and communications engineers who would be able to examine the problem or the demand under review, and they have economists who would look at the impact which this would have on the total economy. I do not mean only as far as the telephone rates are concerned, but the total picture. I suggest that the Canadian Transport Commission should be the designated body because it already deals with questions of rates, and if the problem of foreign attachments will have some impact on the rates I cannot readily understand how two different bodies could deal with an issue that is so closely related. That is why I am inclined to think that the C.T.C. would be an appropriate body to deal with it.

**Mr. Bell (Saint John-Albert):** May I ask a question on that point, Mr. Chairman? Do you feel, Mr. de Grandpré, that the C.T.C. presently has enough power to do what you suggest?

• 1110

**Mr. de Grandpré:** Under the Railway Act, as it is presently constituted, it does not have this power. This power would have to be given through this bill to the C.T.C., if the C.T.C. is to be empowered to deal with this. This approach was taken when the 1957 amendment was introduced. The Canadian Transport Commission, or the Board of Transport Commissioners, as it then was, did not have the power to regulate the issue of shares. The issue of capital stock became subject to the control of the Board of Transport Commissioners by way of an amendment introduced in 1957. I know that some lawyers and law clerks are reluctant to add to the jurisdiction of a regulatory body, which is created by a public act by means of a private act, but the door was opened in 1957 along these lines. If it is going to cure an important uneasiness, let us put it that way, then perhaps an appropriate way to do it to say that if the requirements of the company appear to be to the detriment of some party, then this party would have access to a regulatory body that would determine whether the requirements are reasonable or in the public interest and whether they affect the cost or the quality of the service. These are matters that are important if we are to have a better communications service in Canada. Does that answer your question Mr. Bell?

**Mr. Bell (Saint John-Albert):** Thank you.

**Mr. de Grandpré:** Another aspect which has been widely discussed during these hearings is the question of research and development. I think this is one area where there is almost, I would say, unanimity of opinion that the Company should have access to all types of research and that it should have the necessary powers to invest in research and development companies. The Industrial Wire & Cable Co. Limited brief, for instance, states at page 41:

Bell should be in a position to provide common carrier telephone services of all kinds. In this regard it should be able to make use of any telecommunication developments it sees fit.

Mr. Henry in his evidence before the Committee stated at page 389:

Mr. Chairman, it may be that the Committee, in the light of the foregoing knowledge, may wish to consider deferring a decision, without making any final



judgment in the matter, to recommend that any additional powers of acquisition or investment...

He was talking about clause 8.

...other than perhaps research, be conferred for the present in order to enable the results of these various studies and inquiries to be known and a mature judgment formed on the basis thereof.

And at page 389 he expressed these views:

This is something which I think quite obviously they should be permitted to go on with. It would not make any difference to the problems that I have been discussing if they feel that this is urgently needed as the basis of research.

He spoke along the same lines at pages 416 and 422 of the transcript.

• 1115

The performance of the company in the field of research and development is also an important aspect to bear in mind if we want to appreciate the importance of this point. At present there are 825 professional engineers in Bell alone, and in the Bell-Northern complex there are 1,486 engineers, which makes it the second largest employer of engineers in Canada. Since 1960 these people have applied for 60 patents, and patents have been issued in 12 cases. In the Northern Electric labs the scientific staff totals 500, 100 of whom hold postgraduate degrees and 30 hold Ph.D. degrees. They have applied for patents and the patents pending and granted total 75. The effort which has been made by the Bell engineers has been most important, I would say, to the success of communications in Canada because it must not be forgotten that in Canada the cost of telephone service, in relative terms, is the cheapest in the world. We are very proud that in the last two years we have even overtaken the United States averages in this connection. You will recall that when we originally made our presentation we indicated that an average worker in Canada would have to work 2.1 hours in order to pay for the basic telephone service while in other countries it ran as high as 15 hours in relative terms. Therefore this has been the result of integration of research, manufacturing and operations. I would say this integration has been the touch-stone of our communication service in Canada.

**Mr. Lewis:** All they have to do is increase the wage rate in the other places and your ratio would hit the ground.

**Mr. de Grandpré:** Now over the years the Company has been able to participate quite extensively in the achievements of national objectives as spelled out by the Economic Council of Canada and various government agencies. We have been able to repatriate whole ownership of Northern, which is now 100 per cent in Canada; we have been able to increase the relative percentage of Canadian ownership in the company itself which is now about 95 per cent Canadian-owned; we have been able to pierce the export markets. Northern indicated before this Committee that in 1968 and 1969 they will probably export 50 million, if not more, to various countries such as Greece, Turkey even the United States; we in Bell have also been able to set up in recent months a special department which will be able to give assistance to foreign telecommunication companies—the force is now meeting with communication companies throughout the world, and these efforts of course have been an important contribution towards our efforts to maintain an adequate balance of payments; and finally all our efforts directed toward exporting or increasing exports have contributed in no small measure to greater employment in Canada. These were the efforts that we made over the years to meet these national objectives. This was the purpose that we had in mind when we came before you requesting amendments to our charter. We felt that this was a proper updating of the powers. Finally, in trying to meet these objectives, and in trying to meet the objections raised by some witnesses and members of this Committee, I think my remarks will indicate that we are endeavouring to be as realistic as possible in dealing with the problems at issue. That is all the comment that I had to make at this point, Mr. Chairman.

• 1120

**Mr. Lewis:** I am not asking for the name of the company but if you wish to give it that is fine. What kind of company that you could not have bought under the old description of your powers do you now seek to be able to buy or to buy into under section 8?

**Mr. de Grandpré:** The powers that we had under the Charter as it existed prior to our application were very broad but, to some



extent, unsatisfactory to a lot of people. I am thinking of the attacks to which we have been subjected in connection with our investment in Northern. It has been suggested that our investment in Northern was unlawful because it was an investment in a company that was unauthorized under our original act. As you remember, the problem was submitted to the Board of Transport Commissioners and they came to the conclusion that it was quite appropriate for Bell to invest in Northern.

**Mr. Lewis:** They found a line on the Island of Montreal somewhere.

**Mr. de Grandpré:** They found two things, Mr. Lewis: they found a pair of wires 16,500 feet long, and they also found that we were capable of investing because the Company had the power to use communications by telephone. They tried to go to the Supreme Court but permission was refused, and finally they applied to the Cabinet for a review and it declined to review. Although we are convinced that we have the necessary powers I think that you will agree that it is not quite tidy to have this question raised from time to time, and this was a clarification of our powers. If I had not given you these reassurances about broadcasting, publishing and CATV operations, which we are prepared to have included in the Bill, I think maybe some people could have been worried about the diversification that was made possible. But it seems that having restricted to a substantial degree the kind of investments that could be made the powers, in fact, are not so sweeping anymore.

**The Chairman:** We do have a list of questioners and perhaps, Mr. Lewis, I will allow you to question on this matter as soon as Mr. de Grandpré has finished his remarks.

• 1125

**Mr. Lewis:** He is finished and I am not really questioning in the normal sense. I only want to understand what the Company has in mind. He may be right. What kind of company do you have in mind to purchase under the present definition of your powers?

**Mr. de Grandpré:** Under clause 8?

**Mr. Lewis:** Yes.

**Mr. de Grandpré:** Perhaps I have not indicated quite clearly that we feel the powers that we seek under clause 8 are reasona-

ble in view of the modern trend in corporations' activities to try to diversify their investments. We realize that we stand in a different position and that the broadest powers to diversify maybe should not be given to us because of our natural monopolistic position. To that extent I think we would be quite prepared to limit our right to invest to companies that are involved in research and development only. Clause 8 originally read as follows:

For the purpose of carrying out its corporate powers the Company is empowered to purchase or otherwise acquire, and to hold shares, bonds, debentures, or other securities in any other Company having objects in whole or in part similar to those of this Company or in any company engaged in research and development work in areas of inquiry that relate to the objects of this Company, and to sell or otherwise deal with the same.

My position on this, having realized that this raises a lot of questions and uneasiness, is that we would be prepared to delete from that clause the following words in the fourth line:

having objects in whole or in part similar to those of this Company or in any company

with the result that clause 8 would now be limited to an R. and D. company. That was why I said there is unanimity on this, and I think that this clause would no longer pose any problem if we restricted it that way.

**Mr. Lewis:** That had not been made clear.

**Mr. de Grandpré:** I am sorry.

**The Chairman:** If Mr. de Grandpré or Mr. Scrivener have no further comments I will ask Mr. Rock to put his questions.

**Mr. Rock:** Mr. de Grandpré, if the Committee felt clause 8 should stay as it is, you would have no objection either?

**Mr. de Grandpré:** No, no objection, Mr. Rock.

**Mr. Rock:** In clause 4 of your bill on page 3 you say:

4. Section 2 of chapter 39 of the statutes of 1957 is hereby repealed.

My intention regarding the actual section which is in your Charter and which is written in your brief at page 40, showing what is actually repealed, is only in case the Committee does not want to repeal the whole of

clause 2, and then I would add this amendment. Otherwise, I believe, if it is repealed, you then have the power to sell shares to your employees, Northern and all the rest.

**Mr. de Grandpré:** That is correct, Mr. Rock. If clause 4 of our bill is adopted, it means that section 2 of Chapter 39 is repealed and, therefore, our issue of shares is no longer regulated by the CTC with the result that we could on our own motion without going to the CTC extend the privileges of the savings plan which is available to Bell employees to subsidiaries of Bell.

**Mr. Rock:** Very good.

• 1130

**Mr. de Grandpré:** If clause 4 is accepted by this Committee then you really do not need your proposed amendment. If, on the other hand, clause 4 is deleted from the bill, then if it is the wish of the Committee to extend to the employees of subsidiaries the privileges of having access to the savings plan of the Company, it is certainly...

**Mr. Rock:** Mr. Chairman, as you can understand, I would like to make that clear in advance because, personally, I would rather have this section repealed and then this will automatically bring into being what my intentions are.

**The Chairman:** Let us get this clear. If clause 4 is deleted, and it probably will be, I gather then that Bell would have no objection to extending to employees of their subsidiaries the privilege of having access to this savings plan.

**Mr. de Grandpré:** That is correct.

**The Chairman:** Therefore, if that is the case, how would you provide that plan? If clause 4 was deleted would you just put a new clause 4 to provide this savings plan?

**Mr. de Grandpré:** That is correct.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, I have a supplementary. Do you anticipate any other similar problems if we repeal clause 4?

**Mr. de Grandpré:** No. If we delete section 4 then we would continue to be subject to the same kind of regulations that we are under today. I do not think this particularly creates any problems because I have made my position quite clear. We thought it was a redundant regulation and that is why we thought

that this was a good practical approach to it. But we certainly have no very strong views about this.

**The Chairman:** Would you not have the power now to extend your savings plan?

**Mr. de Grandpré:** No, not now. If clause 4 is deleted from the Bill then we would have to apply to the Canadian Transport Commission to obtain their permission to extend this plan to employees of subsidiaries. I should tell you that we made such an application in February or March of 1966, if I remember correctly. At the time the Board of Transport Commissioners felt we had not proven to their satisfaction that it would be in the best interest of the company or of the subsidiaries to have this plan extended. They said they would deal with it at a later date if we wanted to make another application and conditions changed. We had presented proof that a large proportion of the mother or parent companies had in fact savings plans or stock option plans of some sort applicable to all employees which were extended to subsidiaries, but of course we could not prove that it was a universally accepted practice by all parent companies to make this plan available to subsidiaries.

The reason we felt that the plan should have been extended to Northern employees is that there is a certain amount of movement of employees between the two companies, especially at the engineering level, and if an employee of Bell is transferred to Northern and if the savings plan is not extended to him, it means that he can no longer purchase Company or Bell shares under the plan as soon as he is transferred to Northern. In some cases it can create some reluctance on the part of that employee to move to Northern because of the loss of a fringe benefit. This was the reason we felt it would provide something that would make mobility of personnel easier.

• 1135

**Mr. Rock:** May I ask a supplementary? I hope that the members of the Committee realize that at the moment clause 4 reads as follows:

4. Section 2 of chapter 39 of the statutes of 1957 is hereby repealed.

If we adopt this clause then this section is repealed and, personally, I am for adopting the clause to repeal that section. However, if the Committee does not adopt clause 4 which



repeals this section, then I will bring in the amendment because the amendment attaches itself to that section. That is what I want to clarify.

I understand, Mr. de Grandpré, that if we adopt clause 4, which will repeal Section 2 of chapter 39 of the statutes of 1957, then you will automatically have the right to extend the savings plan to Northern or any other subsidiary.

**Mr. de Grandpré:** That is correct.

**Mr. Rock:** Without going to the CTC?

**Mr. Lewis:** Mr. Chairman, Mr. de Grandpré mentioned the decision of the Commission or the old Board. The proposed amendment by Mr. Rock, which I do not have any objection to unless proven otherwise goes contrary to that decision. Mr. de Grandpré indicated some reason that the Board reached that decision, namely that he had not shown that it was in the interest of. Was the Board convinced that it was not in the interest of?

**Mr. de Grandpré:** No, the Board took more or less a holding attitude.

**Mr. Lewis:** I suppose there are copies of the decision?

**Mr. de Grandpré:** Yes.

**Mr. Lewis:** I would like to know why the Board refused it before voting on this amendment.

**Mr. de Grandpré:** They simply felt, Mr. Lewis, at that time that we had not satisfied them that it was in the interest of the subscribers—because this is the interest they have to look at all the time—to make this plan available to the employees of the subsidiaries at the option of the Company. We had introduced evidence indicating that several parent companies were in fact extending this privilege and that it was more or less the general practice of corporations to do this. However, we certainly could not prove that there was unanimity in this connection and they felt that we had not discharged the burden of proof at that time. This is the position they took and, of course, I am paraphrasing the judgment.

**Mr. Lewis:** There was not anything in the judgment that said that this would be against the interest of subscribers?

**Mr. de Grandpré:** No, Mr. Lewis.

**Mr. Lewis:** You merely had to show reason.

**Mr. de Grandpré:** That is correct.

**Mr. Rock:** Mr. Chairman, when I asked officials of Northern Electric that question they said they would be very happy if their employees could have this privilege. Also, I spoke to quite a few union leaders from Northern who sat in as observers at the hearing and they said they were very interested because they have been wanting the same privilege as the employees of Bell have for years. This is the reason I would like to see this in, if we do not adopt clause 4.

**Mr. Bell (Saint John-Albert):** Just so silence will not be taken as full approval I want to have a look at this because I think there is a bit of conflict in principle here. If Bell Telephone has asked that they be exempted for certain of their activities in so far as going to the CTC is concerned and we have said "no, we think you should still have to go to the CTC but we are making an exception here," while it affects the employees it is not too consistent.

**Mr. Rock:** I think it is in one way.

**Mr. Bell (Saint John-Albert):** We do not have to decide that now.

**Mr. Groos:** Mr. Chairman, I do not want to delay matters too much—I would like to move along—but I have four short questions which do not refer to any specific clause in the Bill. We do not have Bell before us very often and I think now is the time for me to ask these questions.

I notice that very considerable emphasis is laid on Bell's efforts to provide service and research, particularly the effort that goes into the money-making or money-saving areas, which I will not disagree with at all. However, I would like to be reassured that some equal effort goes into the non-revenue producing customer service areas. I have in mind two specific areas. One of them is this matter of eavesdropping devices and so forth. I think all of us have become very much aware of the part that a telephone device can play in eavesdropping. Does Bell Telephone provide a sort of de-bugging service?

• 1140

**Mr. de Grandpré:** Mr. Scrivener is more qualified than I to answer this question, if I may ask him to comment.



**Mr. R. C. Scrivener:** Frankly, Mr. Groos, in today's technology you cannot prevent eavesdropping, one way or another. Eavesdropping on the telephone may be done in ways that can be detected without too much difficulty. On the other hand, it can be done in ways that are most difficult to detect. This is the result of technology.

**Mr. Lewis:** Do not tell us the ways.

**Mr. Scrivener:** From time to time people come to us and say they suspect that their line is "tapped". When they do we turn everything loose. We have to try to find out if there is any evidence of a device which would permit someone, not a party to that service, to overhear whatever goes on over it.

**Mr. Groos:** Do you make any charge for that?

**Mr. Scrivener:** No, there is no charge. On the other hand, I do not want to leave the impression that we can police the security of conversation on five million telephones. In this day and age, unfortunately—and I am very sorry this is the case—we just cannot assure you that those five million telephones are completely clear of any possible eavesdropping device.

**Mr. Groos:** I understand that.

**Mr. Jamieson:** May I interject a supplementary here? Is it frequently, occasionally, or often that these complaints or reports turn out to be correct? In other words, do you have evidence of fairly widespread wire-tapping?

**Mr. Scrivener:** No; very seldom do they produce anything. Again, you see, that does not prove that there has not been eavesdropping, but it tends to prove that it was not being done via the telephone.

**Mr. Groos:** My second question is again in the area of non-revenue-producing customer service.

People with a telephone seem to be faced more and more these days with anonymous calls. It seems to me, with the technology available today, and the high-speed switching and so forth, it seems to me that a telephone company should be able to trace these calls very much more quickly than I understand is the case. What advances are you making in that direction?

**Mr. Scrivener:** We keep track of all complaints from the public about what we call, in

broad terms, annoyance calls. As you will know, gentlemen these cover all types of annoyance and harassment.

We investigate each complaint. A great many of them are dropped in the initial stages of the investigation. They tend to involve triangles, neighbours, family disputes and quarrels. In situations where some action is taken we may talk to all the parties involved and say "Can you people not decide this?". The complainant will say: "I think it is straightened out now."

However, there are other cases which require our taking other action such as call-tracing. We are devoting a great deal of effort at the moment, as are others in the industry, to devices which will permit more rapid tracing of calls, primarily through the complexities, of the metropolitan telephone system. If a call originates at one end of Toronto and the annoyed party is at the other, it may go through half-a-dozen exchanges. To trace it is a complex matter. We are trying to develop—and have developed—devices which will permit our more rapidly tracing the point of origin of a call.

• 1145

If we can trace the point of origin of a call and the annoyed person tells us when that call is on we can determine that when he was being annoyed the call was coming from a certain other telephone. At that point we introduce the police into the matter and turn the evidence over to them so that they can take action.

**Mr. Groos:** The safety of the public is a matter of considerable importance. A week rarely passes without some sort of a bomb scare somewhere or other, or in an aircraft in the air, or threatening phone calls to individuals. It seems to me that in the interests of service to the public the telephone companies should devote a fair amount of effort to producing a system whereby those being called could immediately contact a counter organization which could establish from where the call was coming.

**Mr. Scrivener:** Because of a number of things, Mr. Groos, I agree entirely with the words and intent of your comment.

From a technical and operating point of view we are prepared to do everything. There is no problem of resources, or costs, or anything associated therewith. Frankly, I think more severe penalties would be of assistance.

**Mr. Groos:** If you can catch them.

**Mr. Scrivener:** It is very difficult. . .

**Mr. Vincent:** There have been many more prosecutions in the last year or two. You must have seen evidence of that in the newspapers. This was primarily due to these new devices which came into operation within the last couple of years. You must have noticed that there have been many more prosecutions, but we would like to see more severe sentences.

**Mr. Groos:** My third point relates to the Ericafon. Is that the name of it?

**Mr. de Grandpré:** Yes, that is right.

**Mr. Groos:** You referred to toasters and refrigerators, and so forth. The electrical business has the Canadian Standards Association. Do you have a similar group in the telephone industry such as a telephone equipment standards association? I was recently in the Okanagan valley, and I know that the Okanagan Telephone Company has many of these Ericafons.

**Mr. Jamieson:** What is an Ericafon?

**Mr. Groos:** It is a little gadget which you pick up and speak into. . .

**Mr. de Grandpré:** It is a phone manufactured by L. M. Ericsson in Sweden. It has the dial under the base of the set.

**Mr. Jamieson:** The thing on the bottom?

**Mr. de Grandpré:** That is right.

**Mr. Groos:** We have enlightened you on that point.

A person wishing to have one of these foreign telephones has first of all got to pay \$25 to check it out, and then \$5 more for connecting it, as well as the usual charge.

Perhaps it would save the customer a little money if there was a standards association for telephone equipment, so that this when a type of equipment would have to pass certain standards of compatibility and so forth before it would be deemed suitable for use. Quite obviously the Ericafon has, because the Okanagan Telephone Company is in some way connected with the Canadian-wide telephone system. This might be of advantage to the public. Have you any comment on that?

**Mr. de Grandpré:** This is the reason for our having suggested that the requirements of the

company be subject to some kind of review by an independent body.

I am sure that over the years some acceptable standards will be developed and that it will no longer be necessary, after some years, to apply in each and every case. This will take time, of course. There are no standards now.

• 1150

**Mr. Scrivener:** I would like to add something to what Mr. Groos said. All the major telephone companies in Canada have basically the same standards with respect to the transmission requirements of a telephone instrument. The major manufacturers in Canada, obviously because they are going to sell to these companies, manufacture to these standards. The Ericafon manufactured in Sweden is a good telephone and by and large meets these standards, but there are a lot of manufacturers in and outside the country who are making instruments they class as telephones that do not meet these standards.

One of the major problems we are going to be facing in the next decade is international communication standards to permit international communications comparable to those we have on the North American continent. Most of the trouble we have, Mr. Groos, comes from those sources; in other words, it is something that comes from another country—and I will not mention any names—but frankly it just does not meet those standards and we have to take out all of the innards and replace them with those that do.

**Mr. Groos:** Thank you, Mr. Chairman.

**Mr. Rock:** May I ask a supplementary? To continue with what Mr. Groos asked, since you know that the Ericafon meets your standards why, if anyone else purchases the same telephone, do you still charge \$25 to check it out when you know already that telephone has already passed the standards you require?

**Mr. Scrivener:** Initially it did not, and we are at a stage now where this type of thing may have to be adjusted, Mr. Rock, so long as we can be assured that the standards will be adhered to.

**Mr. Lester:** I would just like to add one point to Mr. Rock's question. The Ericafon, as Mr. Scrivener pointed out, had some problems initially. It still has some problems. As was mentioned, the dial is on the bottom of



the instrument so every time you put the set down you disconnect it, so you have to be careful, if you are in the course of a conversation and put your telephone down to get a piece of paper, that you put it on its side; if you put it on the bottom you are cut off. Every time you pick the telephone up you connect to the telephone equipment and hold up switches, so there are some real problems. In terms of transmission yes, it is a good set, but in terms of design it leaves quite a bit to be desired so far as we are concerned.

**The Chairman:** Mr. Bell?

**Mr. Bell (Saint John-Albert):** Mr. Chairman, I would just like to ask a question or two about clauses 7 and 8. I appreciated the explanation that Mr. de Grandpré gave and I think the compromise that has been offered in each case will go a long way towards satisfying our objections. I presume, Mr. Chairman, that these amendments will be available so that we can have a look at them before we are finally asked to vote on them.

But what I want to ask is: Is not your answer to the different witnesses that said clauses 7 and 8 should be deleted wholly that you want these clauses in to clarify existing conditions and you are not really asking for more powers? I ask that because of Mr. Lewis' questions when he asked what are the companies that you want to go out and purchase or obtain that you cannot do now. Is not the answer to that partly that you feel you could probably make these moves now, but there is questionable law involved and this would merely clarify it?

**Mr. de Grandpré:** In connection with clause 7, I do not think this gives us any additional power. In fact, I think with these suggestions I made to meet these objections that we will have more limited rights than we have today under the 1948 amendment.

**Mr. Bell (Saint John-Albert):** Then why leave the clause in?

**Mr. de Grandpré:** The clause was introduced simply to update the wording in connection with telecommunications. As Mr. Henry said, if you are in the whip and buggy days you can have whip and buggy terminology; if you are in the jet age you should have jet definitions and the purpose of clause 7 simply is to update the wording of the 1948 amendment so it will be in line with the terminology used in more recent pieces of legislation introduced by Parliament.

• 1155

Clause 8 as originally drafted also had the purpose of clarifying our investment powers. It was feared that while clarifying we were going to move into all sorts of companies, and in order to alienate these fears we have indicated that the portion of clause 8 which was strongly objected to, namely that portion which says

... in any other Company having objects in whole or in part similar to those of this Company...

should be deleted so that we would stay with the only thing under clause 8 about which there is no discussion, namely investment in research and development companies.

**Mr. Bell (Saint John-Albert):** In other words, briefly then your answer to those that would want these clauses deleted is that they update and clarify the law.

**Mr. de Grandpré:** That is correct, and I think the additional provisions we are prepared to introduce will remove all the fears that people could still have if clause 7 is not amended the way we now suggest, because we would still be left with the power under the 1948 amendment which dealt with substantially the same issues, the emission of time signals, intelligence, and so on, but it did that in terminology no longer used in modern statutes.

With the addition of these provisions stating that we cannot be broadcasters—we had given this assurance in 1948 but there was no specific provision to prohibit the Company from becoming a broadcaster; we did not take advantage of this but still I maintain we could to so under the 1948 amendment—with this new approach I think there is no problem left. We cannot be broadcasters; we cannot be a CATV operator; we can have no control over the contents or meaning of the message or the implication of the message; these are all additional safeguards that we are prepared to introduce in order to meet these objections.

**Mr. Bell (Saint John-Albert):** In other words, those witnesses that suggested these clauses be deleted should be more than happy now we have limited your powers.

**Mr. de Grandpré:** I would believe so.

**Mr. Bell (Saint John-Albert):** There is one other matter I would like you to comment on. Mr. Henry suggested on page 12 of his brief,



and it is the quote you mentioned, that possibly the company should be given additional powers of acquisition for research. He also said—and this bothers me as a member of the Committee—that we may wish to consider deferring a decision on any additional powers, other than research, until after the hearing.

I appreciate that you have made this qualification, but would not part of our answer to that be that we are really just updating and clarifying existing law, and if his inquiry brings out any evidence he has not really embarrassed us because we have not given anything more than what you had.

It bothers me that Mr. Henry's inquiry might take a certain line that would make it look as though we might not have exercised our full responsibility here, and I am looking for some help in reply to how we can go ahead, with this inquiry now in existence.

**Mr. de Grandpré:** I appreciate your difficulty, Mr. Bell. If you analyse Mr. Henry's evidence I think you will identify his preoccupation. He says if clause 7 empowers the Company to become a broadcaster then he thinks the enactment should be deferred.

#### • 1200

In order to meet this objection we say we do not want to be broadcasters; we are prepared to put a limitation in the act and, having met this objection, then I think the objection falls.

He says if it is only an updating then he has no objection. If it is more than an updating and if it is, in fact, the granting of additional powers to become a broadcaster, then he thinks you should wait. But, having met this objection, I think the objection falls because the assumption no longer remains.

**Mr. Bell (Saint John-Albert):** Of course, the same thing applies too in an overall way to the lack of any government decision on the satellite business. I do not say we are taking any action that would be in conflict with anything the government would do later but so far as both Henry's inquiry and the overall satellite picture are concerned—I just state this to the Committee—I feel it would be better had there been decisions on both before we dealt with this. Perhaps Bell would have got a much better deal than they are getting out of it, as a matter of fact.

I am just saying, as a member of the Committee, that it is awkward but I appreciate

the reasons you have given for wanting to retain these two clauses and I hope we can have a copy of the proposed amendments and have a good look at them here in Committee before we pass them so there will not be any involvement in the House later. Thank you.

**The Chairman:** Mr. Schreyer, you are next.

**Mr. Schreyer:** Would it be correct to say that you want clause 8 to be in the bill but not so much for the added powers it may give, because I believe you said your interpretation is that it does not really give any additional powers; it may serve to clarify.

The real reason, perhaps, could be the effect this would have on your financial management in the Company, your bond ratings, the price of your stock offerings, and so on.

**Mr. de Grandpré:** The reason we want to clarify this power concerning investment in research and development companies is that if we decide to invest in these types of companies it will be a new type of investment that we have never done before, and if we are going to initiate action in this direction we do not want to be under the same kind of cloud as we are in connection with the Northern investment.

As I said, being a new avenue we want to explore, we feel that this should be clarified before we start to invest in research and development companies, so that indirectly if this clause is passed it would perhaps tend to improve bond ratings for Bell.

Let us put it the other way around. Let us say we decide to invest without that clause, and let us assume some people feel that we do not have the powers for reasons similar to those raised in connection with Northern; this would be an additional problem we would have to meet.

You have to realize that any corporation that has to raise very substantial amounts of money from year to year cannot time demands for capital funds. We have to meet the demand and anticipate the demand and prepare our construction program so that we can meet the demand when it occurs. So, we cannot say, well, this year we will not borrow \$120 million—we have to borrow \$120 million in order to meet the construction program.

#### • 1205

We have to operate in a climate that will give confidence to investors if we do not want to pay too high a price for our dollars. If we

are placed in a position where the investors feel we are operating under too many clouds then the cost of money will go up and, if the cost of money goes up, eventually the cost to the subscriber will reflect this additional cost of operation.

**Mr. Schreyer:** Mr. Chairman, with respect to clause 4, I think it was the feeling of some members of the Committee, Mr. Bell and my colleague Mr. Lewis, that the Clerk perhaps might arrange to have a copy of the transcript of the judgment of the Board circulated among members of the Committee.

**The Chairman:** This deals with the judgment of Northern Electric?

**Mr. Lewis:** With respect to the shares.

**Mr. de Grandpré:** I could certainly arrange to have it this afternoon for the meeting. I have it in my office in Montreal, but I will obtain it at noon and make photostats for use of the members of this Committee.

**The Chairman:** Would not the Secretary of the Board have this?

**Mr. de Grandpré:** Yes, Mr. Rump would have a copy.

**The Chairman:** He would have it immediately so that he could have some copies run off.

**Mr. de Grandpré:** Yes, if you can make these arrangements, Mr. Rump undoubtedly has that.

**The Chairman:** I will ask Mr. Rump to have copies run off for the members of the Committee. They will be here for this afternoon, Mr. Schreyer. What is the name of the case?

**Mr. de Grandpré:** This was an application by The Bell Telephone Company of Canada to obtain power to extend its savings plan to employees of subsidiaries.

**The Chairman:** What year was that?

**Mr. de Grandpré:** It was in February or March, 1966, to the best of my recollection.

**The Chairman:** That is enough information for Mr. Rump to identify it.

**Mr. Lewis:** That is the date of the application not the date it was dealt with.

**Mr. de Grandpré:** Well, it was dealt with very shortly after that, Mr. Lewis.

**The Chairman:** Mr. Rump will be able to have that information for us. Is that all Mr. Schreyer?

**Mr. Schreyer:** No, I have one more question, Mr. Chairman. It does not have to do with the subject matter of the bill; it has to do with the letter you read out to us earlier today. I am just interested in finding out how this has been dealt with. Have you made some reply?

**The Chairman:** Do you mean the letter from Mr. Holt?

**Mr. Schreyer:** That is right.

**The Chairman:** It came to my attention just late yesterday afternoon and I have not replied. The implication of the letter was to bring it to the attention of the members of this Committee and that is what I have done.

**Mr. Schreyer:** Well, it is a point of procedure, then. What is the intention now? What should be the intention of the Committee now with respect to replying to that letter?

**The Chairman:** I do not think there is any reply that we can make to the letter. It is a matter of bringing a set of facts to our attention and I asked Mr. de Grandpré to comment on it this morning and that is what we will do, just send him a copy of the transcript.

**Mr. Lewis:** Well, Mr. Holt is asking why Mr. de Grandpré is harassing him.

**The Chairman:** That is right; he says they are not harassing him but following the procedure under the custom's tariff.

**Mr. Lessard:** He does not have to reply.

**The Chairman:** No. No reply was asked for.

**Mr. de Grandpré:** If I do not harass him, I am discriminating against the fellows next door that are paying the price for the service.

**Mr. Schreyer:** Well, Mr. Chairman, in that connection since...

**The Chairman:** The letter, Mr. Schreyer, says:

Would you please bring this matter to the attention of...

well, this is directed to Mr. Virr,

... the Chairman and members of the Committee and if possible advise me as to my rights in this situation...

I think he should consult a lawyer. Let him go to legal counsel.

...and what steps can be taken to protect me.

Well, he can go to a lawyer if he wants to take any action against Bell on the matter. We cannot do anything.

**Mr. Schreyer:** I was just curious about how you intended to respond to that.

**The Chairman:** That is how I will respond if you want me to; that the matter should be handed by counsel but I will send him a transcript of the evidence of the replies that were made this morning to that letter by Bell.

**Mr. Schreyer:** I would like to make the comment, Mr. Chairman, that while on the one hand I do not think Bell acted wrongly under the law, I feel it is unfortunate for the Committee system that Bell should have taken this action so soon, so immediately after the gentleman testified.

**The Chairman:** Mr. Schreyer, I am not defending Bell, but in all fairness they have certain procedures to follow according to the customs and tariffs. They found out about it through his evidence. Had they found out about it in another way they would still have taken the procedures. I do not think it reflects on this Committee.

• 1210

**Mr. Schreyer:** No; I said it was unfortunate.

**The Chairman:** Yes, I understand that. But what can we do?

**Mr. de Grandpré:** May I complete my answer to Mr. Bell's question?

**The Chairman:** Yes. I am sorry.

**Mr. de Grandpré:** I would like to refer to the evidence given by Mr. Henry on clause 7, at page 395 of the transcript, the last paragraph in the right hand column.

It is, of course, desirable that the powers of the Company be clarified in modern terminology to permit it to provide its services as a common communications carrier by means of current and developing technology. If this is the only effect of clause 7, I do not see any problems in the nature of those I have described arising out of the amendment. If, however, the effect of the amendment is to extend the powers of the Company to permit it to

undertake new businesses, such as the business of radio or television broadcasting, then I see cause for concern.

That is why I said that his remarks were predicated upon this assumption, and having removed this difficulty then I think his objection falls.

**The Chairman:** Before I call on Mr. Reid, I want to intimate that we will adjourn for lunch at 12.30 and re-convene after Orders of the Day or at 3.30, whichever is earlier. Also, although it does not appear on the notice, there will be a meeting this evening on this particular Bill. We will set a time for that this afternoon, after we see how we progress.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, on that point, how do you anticipate that these amendments will come forward for our consideration?

**The Chairman:** I hope to meet at noon with Mr. de Grandpré to go over them. Perhaps I can have the copies run off and in the hands of the Committee this afternoon.

**Mr. Bell (Saint John-Albert):** Before we are finally confronted with...?

**The Chairman:** Yes; before we get to those clauses I will have the draft photostated by the Committees Branch and made available as soon as possible. They may be distributed to the members of the Committee in the House this afternoon.

**Mr. de Grandpré:** That suits me, Mr. Chairman.

**Mr. Reid:** I would now like to revert to the discussion of proposed clause 4. First of all, Mr. de Grandpré, have you had any difficulty in having speedy action taken by the Transportation Committee of the old Board of Transport Commissioners on your application to issue stock?

**Mr. de Grandpré:** No, I would not say that we have had any problems. Of course, whenever we have an issue, we will in the future contact the chairman of the Railway Transport Committee. In the past, I used to contact Mr. Carr, who was the Chairman of the Board of Transport Commissioners, and we would indicate to him that such an issue of shares was planned and that certain timing was necessary to meet the deadline. We also indicated to them that we would file our application on such-and-such a date, and they



would deal with the application with considerable expediency. This has never proven to be a problem.

**Mr. Reid:** There has been pretty nearly automatic approval of the issuance of the shares, within your prescribed capital limitations?

**Mr. de Grandpré:** That is right. I am not aware of any case where they have substituted their judgment for the judgment of the experts and have indicated that an issue could be marketed at such-and-such a price.

**Mr. Reid:** "They" being the financial experts?

**Mr. de Grandpré:** That is correct.

**Mr. Reid:** You have never issued preferred shares previously, have you?

**Mr. de Grandpré:** We have not; and neither have we ever created preferred shares.

**Mr. Reid:** If we pass clause 2, with the amendment permitting you to create preferred shares, would it be necessary for you to go to your stockholders to request their permission?

**Mr. de Grandpré:** Oh, yes. If we are given permission to create preferred shares, according to the provisions of clause 3 the shares would be created and this would be approved by the shareholders at large.

#### ● 1215

Assuming that clause 4 is deleted and that the CTC maintains its jurisdiction over the issue of shares, then, as an additional step, we would have to go to the CTC for their approval on the amount, terms and conditions of that issue. They have the necessary jurisdiction over any issue of capital stock. In my view, it would apply equally to preferred shares.

**Mr. Reid:** Do they have the necessary expertise in this specialized field?

**Mr. de Grandpré:** I would think so. They have a staff of economists who are familiar with economic problems. Mind you, we introduce considerable evidence to justify the issue price. In a standard presentation we have stock dealers and independent stock purchasers for large corporations, and we also present statistics on the types of issues that were made to the public during the past "X" number of months; we give the size of each

issue to indicate how much the market can absorb at any given time; we indicate the issue price of these issues to show what was the percentage of the market price that was set for each issue at the time of issue; and we come to a judgment: Is it going to be 82 per cent of market, or 81 per cent, or 80 per cent? This is the judgment area in which we work.

I would say that as a general rule the average issue price over the years has been in the neighborhood of 80 per cent. The last issue was 82 per cent of the market, if I remember correctly.

**Mr. Reid:** You used the term "common carrier" or "electronic highway". Do you have a definition of this rather elusive term?

**Mr. de Grandpré:** Unfortunately, no; it would be quite handy to have one, I admit, because if we did it would not be necessary to take all the precautions to indicate that we would not control the contents, that we would not influence the meaning or purpose of the message; we would not do this.

What we are attempting here is to indicate what we cannot do as a carrier. To my knowledge, there is no definition of a common carrier. That is why I refer to the Communications Act of 1934, which defines "common carrier" in a very unsatisfactory way, at least, so far as I am concerned. I do not know how you feel about it, Mr. Reid, but when you define a common carrier by saying "person engaged as a common carrier" you are no better off, in my opinion.

**Mr. Reid:** Yes.

**Mr. de Grandpré:** Those who are lawyers on this Committee will agree with me that it is bad to use the same word in the definition.

**Mr. Reid:** That is quite true. And to go into the question of definition under clause 8 and the companies which you might be interested in acquiring, or acquiring a share in, have you a definition of "research and development company"?

**Mr. de Grandpré:** I really do not know whether research and development comes into the question.

**Mr. Reid:** This would allow you to go into some interesting areas such as those where companies did undertake substantial research and development.

**Mr. de Grandpré:** In the telecommunications field.

**Mr. Reid:** The telecommunications field?

**Mr. de Grandpré:** Yes; in the telecommunications field. This is quite restricted. We cannot invest in a research and development company in the petro-chemical field, for instance.

**Mr. Reid:** Would this extend to the possibility of acquiring a consultative firm. For example, we had one before—DCF Systems Limited. Would this be excluded from your terms of reference in this particular clause?

• 1220

**Mr. de Grandpré:** I really do not know what they are involved in and I am not prepared to answer whether we would be authorized to invest in a company of that type. If a firm is involved in research and development of what is called "software" in computers as opposed to "hardware" I see no reason that this kind of investment should not be available to us as a communications company because there are some problems in connection with our electronic switching centers which are very similar to the problems in the computers field.

**Mr. Reid:** That is fine. I pass, Mr. Chairman.

**The Chairman:** Mr. Jamieson is next.

**Mr. Jamieson:** Mr. de Grandpré, I am interested in your references to the CATV system. Am I correct in assuming at the moment that your company's relationship with the CATV operator is purely a private matter?

**Mr. de Grandpré:** That is correct.

**Mr. Jamieson:** What is the nature of the general type of arrangement that you enter into? In other words, is it a standard type of contract or does it vary from one location to another?

**Mr. de Grandpré:** We have different types of contracts but as Mr. Scrivener is more familiar with this aspect I will ask him to comment on it.

**Mr. Scrivener:** Aside from the differences in the contract, Mr. Jamieson, that may be necessary due to the particular location in which it is to apply, by and large it is a standard type of contract. It provides for the terms of the contract, the amount of payment,

the period of the contract—by the way, they are usually for ten years to give everybody a chance to get really settled down—and also the standards.

**Mr. Jamieson:** Does Bell or the CATV operator provide the cable in most instances?

**Mr. Scrivener:** When they have a contract with us we provide the cable. Now there are a lot of CATV operators who do not have contracts with us and they provided their plant in another way. Obviously, I would not know where they get their cable.

**Mr. Jamieson:** But in your case, if someone wishes to establish a CATV system in a community where your company operates or has the poles or whatever the other method is, the arrangement is that you retain ownership of that cable.

**Mr. Scrivener:** That is right. They come to us and ask us if we will provide them with the cable plant necessary for their CATV operation. We say that we will be glad to on certain terms and conditions. If we reach agreement then we do provide, and we own that cable plant and undertake the maintenance of it.

**Mr. Jamieson:** I am sure that you are familiar with the growing conviction that the spectrum is going to be used even less and less in terms of broadcasting and that the trend, as Mr. de Grandpré outlined in some respects this morning, is going to be toward cable. Do you visualize the possibility or the likelihood that this might become a sort of integral part of the telephone operation in much the same way that micro-wave is—in other words, that in your developmental work you would automatically lay multi-carrier cables and then make these available to a wide range of organizations such as ETV and the like?

**Mr. Scrivener:** In fact, an increasing number of the cables that we now place under city streets do have coaxial or broadband tubes in them. Because they are multi-purpose cables they can be used for telephone lines as well as for picture transmission. I think, Mr. Jamieson, the type of CATV plant that has been built over the past 10 years is essentially obsolete in that it is a one-way hydraulic type of system where you pump a signal in from one end and it squirts out the holes down the cable. The kind of system you are visualizing really is a much more flexible



system than that; it is a cable broadband system...

**Mr. Jamieson:** That is right.

• 1225

**Mr. Scrivener:** ...which has all the characteristics of the presently wired telephone network. It is a two-way system, not just a one-way system, and it can be inter-connected and switched. In other words, it becomes completely flexible, and...

**Mr. Jamieson:** Right.

**Mr. Scrivener:** ...on that basis that type of system would be made available to anybody who wanted to use it for the transmission of any type of electrical intelligence, if you like, that it is capable of carrying.

**Mr. Jamieson:** My main interest in questioning along this line is educational television. It would seem to me that in planning for this type of development, if I can express a personal opinion, that we are looking at a very small part of it when we talk about the idea of merely transmitting over the air either in DHF or UHF.

Also, however, it would appear to me not to make too much sense if an educational system were to put in its own cable system because it may not need it for 18 hours a day. Now do you see within the next 5 or 10 years perhaps, at least in large built-up areas, a school system or a department of education, in precisely the same way that you now make a long distance telephone call, requesting from you a piece of cable between point A and B between 9 and 10 o'clock in the morning, for instance, and this type of thing.

**Mr. Scrivener:** It certainly is possible that educational television may develop in that direction. Now there are a number of other directions in which it can develop. It can develop in the direction of a greater use of taped TV material.

**Mr. Jamieson:** Is another possibility the 2500 megacycle band?

**Mr. Scrivener:** That is right, because they are really looking for the lowest cost and the maximum flexibility. I basically agree with you though, if there are a number of uses for this type of cable, that to the extent those uses can share the same cable, then obviously, the cost of the use is going to be kept down, whereas if you build a series of single

purpose cable systems then the cost of using each of those systems is going to be higher.

**Mr. Jamieson:** Are you not also going to have a real jungle of cables, in other words like a can of spaghetti.

**Mr. Scrivener:** As Mr. de Grandpré said, we are spending a lot of time, effort and money in putting those cables underground, and if all these other cables are up on poles you can well imagine how easy it is going to be to get them to take those poles down.

**Mr. Jamieson:** Mr. de Grandpré, did I understand you correctly this morning when you indicated that you would not be adverse to some form of regulation of your relationship with CATV operators?

**Mr. de Grandpré:** No, we are not. What I have said is that if we accept the idea that as a communications carrier we are more or less the owner of a route then, if you want to have access to it, this I think should be regulated so that everybody will be happy.

**Mr. Jamieson:** Let me ask a specific question with regard to regulations. It was mentioned that you now have a private contractual arrangement with CATV operators and this of course involves the cost that you charge for the service. How would you react to a proposal that such tariffs would be subject to the approval of some appropriate authority?

**Mr. de Grandpré:** We have no objection to that.

**Mr. Scrivener:** This becomes of significance I think, Mr. Jamieson, when you switch your thinking, as you have, from a CATV operator wanting this cable for one purpose. But when you consider that this type of plant might be required by a number of people for a number of purposes then it seems to me the significance of regulated approach to its use becomes more important.

**Mr. Jamieson:** You mentioned a ten year period; I was not aware that it was that long but even 10 years goes by fairly fast. Not only the CATV operator himself but all of those who are availing of that service are virtually at your mercy in the sense that at the end of that 10 year period...

**Mr. Scrivener:** A renewal is available to him. If he wants to carry on for another period he gets first crack at it.



**Mr. Jamieson:** But does he have any protection regarding the tariff at the present time.

**Mr. Scrivener:** Yes, the tariff re-opener is provided for the protection of both parties during the 10 year period and at the end, if you want to renew.

**Mr. Jamieson:** I have only one other question and it relates to the agency that you see as being the appropriate one for this particular function. As you know, the successor to the Board of Broadcast Governors is now going to be charged with—and the new word is “broadcast undertaking”—and if it ever gets through the House this will include CATV. Would you see yourselves being involved with the BBG or its successor in this particular area, or is this something for the Canadian Transport Commission?

• 1230

**Mr. Scrivener:** As was said, I think it is up to the government to decide because there are a number of intersecting interests in a matter of this kind. It could be that this whole business of how the communications situation should be regulated in the public interest would have to take cognizance of this in order to avoid overlapping jurisdictions.

**Mr. Jamieson:** I have one last and related question to Mr. de Grandpré. You indicated that you have no intention of getting into broadcasting, as it is called. In those terms, however, I take it that you are talking primarily about program control or content control. In other words, I cannot see how, in the new electronic age, an organization like Bell can stay out of broadcasting as such.

**Mr. de Grandpré:** Yes, I use “broadcasting” in the commercial sense, in the sense of producing a program.

**Mr. Lewis:** In the wider sense there is now.

**Mr. de Grandpré:** That is correct, and I am glad that you brought out this point. “Broadcasting” as I used it was in connection with the broadcasting undertaking that we now find in the Bill under discussion before the House. If we do not use broadcasting in that sense, then maybe we will have to define it with the words that are in the Broadcasting Bill.

**Mr. Jamieson:** For example, you obviously would want to be involved in any form of satellite development, would you not?

**Mr. de Grandpré:** Of course.

**Mr. Jamieson:** And, strictly speaking, that is broadcasting.

**Mr. de Grandpré:** It is transmission, it is not broadcasting.

**Mr. Jamieson:** That is the distinction.

**Mr. de Grandpré:** That is right. The point I made when we first appeared in connection with the satellite was that it was just another piece of hardware to perform a function in the transmission of intelligence. It is just like a microwave tower; instead of having a microwave tower on the ground—you have one up in the sky.

**Mr. Jamieson:** Thank you, Mr. Chairman.

**The Chairman:** It is 12.30 p.m. Mr. Byrne, you will lead off when we reconvene.

**Mr. Byrne:** I will only be a couple of minutes, Mr. Chairman.

**The Chairman:** Proceed then, Mr. Byrne.

**Mr. Byrne:** I am really intrigued by the statement you made on page 20 of your original brief, where you say:

Based on a recent study the number of hours an employee in manufacturing would have had to work to pay for a residence individual line for one month in the world's major cities...

Then you show that while it would take two hours work in Ontario and Quebec, it would take two days work in Paris.

**Mr. de Grandpré:** Well, I do not know how long their days are in Paris but it is 15 hours.

**Mr. Byrne:** That is very close to two days, at least by our standards.

**Mr. de Grandpré:** That is correct.

**Mr. Byrne:** Do you attribute your efficiency in any way to the integration of research development and manufacturing?

• 1235

**Mr. de Grandpré:** Well, as I have said before, the communications service that we have on the North American continent is, I think on general admission, the best that there is. This has been done by the American Telephone and Telegraph, generally speaking, by General Telephone, by Bell in Canada and some other companies. I do not think it is

sheer coincidence that Western Electric and American Telephone and Telegraph integrate their labs. You have the same thing with General Telephone and Electronics. General Telephone and Electronics has its manufacturing subsidiary and it has its labs, and it has integrated research development, manufacturing, and operations. In Canada we have achieved the same level of success in developing excellent communication by having integration of Bell and Northern. For instance, because Britain realized that their communications system was not quite adequate they set up a task force, first of all, to study the possibilities of creating a crown corporation to operate the telephone-telecommunications business and also to look into the possibility of bringing some manufacturing units under the complex of the operating crown corporation and this new complex of manufacturers. They realize that this is the answer to the problem.

**Mr. Byrne:** Then Northern Electric, in addition to being a research and development company, is a manufacturing company.

**Mr. de Grandpré:** That is correct.

**Mr. Byrne:** Would deletion of these words you have suggested in clause 8 not eliminate further investment in Northern Electric?

**Mr. de Grandpré:** No, it would not eliminate further investment in Northern Electric, but it would certainly not clarify the situation as far as Northern Electric is concerned.

**Mr. Byrne:** Those are all the questions I have.

**Mr. Bell (Saint John-Albert):** Mr. Chairman, I have a more or less procedural question to complete our record. Would those replies go on the record? We really just got into the specific amendments this morning. There were quite a few other matters that were brought forward at that time but I am not suggesting that we should involve ourselves in them because I, for one, felt they were internal management matters an out of the scope of this Committee. But as I recall, you people answered in a paper, which was sent around to Committee members, the specific complaints that were brought forward by DCF and others about internal management and I feel that should form part of the record if it has not been included already. We have a responsibility to see that the records are complete, and it must not look as though we sloughed this all off.

**The Chairman:** That can be tabled this afternoon and we will print it as an appendix.

Before we adjourn may I say that we forgot to include in the motion moved by Mr. Lessard and seconded by Mr. Bell (Saint John-Albert) an experienced console operator in our supporting staff. Would Mr. Lessard and Mr. Bell agree to that change.

**Mr. Bell (Saint John-Albert):** I would agree to that change.

**Mr. Lessard:** And so do I.

**Some hon. Members:** Agreed.

**The Chairman:** It is carried unanimously.

We will meet in this room this afternoon. We will meet in another room this evening but we will let you know which room it will be. These amendments will be ready for you when you come back.

The Committee is adjourned.

#### AFTERNOON SITTING

● 1544

**The Vice-Chairman:** Gentlemen, we will proceed now with our meeting. Mr. Lewis, do you have a question?

● 1545

**Mr. Lewis:** I would like to preface my question, Mr. Chairman, by saying to the gentlemen representing Bell that one of the things of concern to some of us—my colleagues and myself—is the relationship between Northern Electric or some similar subsidiary and Bell and the fact that the present law does not require Bell to tell us exactly what happens in Northern. Your statements are consolidated ones and the financial and customer-client, purchaser-parent relationship is not made clear to the public and therefore, not made clear to us. It is that concern which makes us very hesitant about extending, in the language of the amending bill, the authority of Bell to purchase into companies. For example, Mr. de Grandpré, it is impossible for us to get any information on whether you buy equipment from Northern at the appropriate price or at some administered price between the parent company and the subsidiary for purposes other than those of the public interest.

I have several questions I want to ask, but my first question is: In view of the fact that



Bell is such an important public utility I wonder whether you would be prepared to give consideration—although the law at the moment does not require you to do so—to make full disclosure to this Committee or to the CTC of the financial arrangements between Bell and Northern, the price arrangements for equipment and all the other related matters which enter into the cost of the service to the consumer?

**Mr. de Grandpré:** There are several questions within that question, as I think you would agree, Mr. Lewis.

**Mr. Lewis:** I was very impressed by the lucidity of your comments and I have no doubt you will be able to unscramble my question.

**Mr. de Grandpré:** As to the disclosure by Northern and Bell of their financial statements, you have indicated they are consolidated, but this is not always so. They are consolidated for prospectus purposes, but they are not consolidated for purposes of the annual reports. Until about three or four years ago—I am subject to correction on this—Northern was not distributing its annual report, but about three or four years ago Northern started to distribute its annual report and Bell, of course, distributes its annual reports from which you can have a clear identification of the financial statements of Bell and the financial statements of Northern.

Regarding your question on whether we would be prepared to disclose the arrangements between Bell and Northern, we did this at great length when we appeared before the Board of Transport Commissioners—as it was then called—during the hearings in May and June of 1965 when Mr. Carroll who was then representing the Federation of Mayors and Reeves—I think that is the name of the Association—cross-examined the experts who testified and the officers of the company at great length. The price structure existing for Bell products was also examined by the CTC and it was determined, for instance, that the rate of return on non-Bell products was higher than the rate of return on Bell products.

**Mr. Lewis:** By “non-Bell” and “Bell” you mean...

**Mr. de Grandpré:** I mean sales to Bell and sales to non-Bell. It was also ascertained that the rate of return was higher for non-Bell sales than the sales to Bell thereby indicating

that the prices were certainly in line, as far as Bell was concerned.

• 1550

As you know, the question of the agreement or the contract existing between Bell and Northern was also examined by the Board of Transport Commissioners and there is a clause in that agreement which says that Bell must enjoy a price lower than the preferred customer of Northern under similar circumstances, or words to that effect...

**Mr. Scrivener:** As low or lower.

**Mr. de Grandpré:** Yes, as low or lower than the price at which the same products under similar conditions are sold to others.

This is broadly speaking and there are conclusions in the decision of the Board of Transport Commissioners in connection with the Bell-Northern relationship which I would like to quote in order to complete the record.

The Board of Transport Commissioners came to the conclusion that the arrangements were in the interests of the subscribers. The evidence had been examined by the Board, at this point, for two hundred and some odd pages because this appears at page 218 of the original typed judgment. It has been printed since, but I am quoting from the original typewritten form and that is why it appears at page 218.

On the evidence the Board finds that at this time Bell's investment in Northern Electric is not in fact prejudicial to the interests of Bell's telephone customers, that the prices paid by Bell to Northern Electric are as low as or lower than going prices; that Northern's overall rate of return does not appear to be excessive in comparison with the general average of other manufacturing enterprises of a similar nature and in comparison with the rate of return earned by Western Electric in the United States; that the rate of return earned by Northern on its Bell business is lower than the rate of return earned by Northern on its non-Bell business; that the rate of return earned by Northern on its Bell business is not unreasonable and not much higher than the rate of return earned by Bell as a utility; and that the Board is not of the view that Northern's rate of return on its Bell business should be limited at this time to the rate of return which the Board finds reasonable for Bell.



These were the conclusions reached by the Board of Transport Commissioners in connection with the Bell-Northern relationship, and, as I said, several days and several hundred pages of evidence were covered by this issue.

I think I should also underline, Mr. Lewis, that the relationship of Bell-Northern is such that the prices paid by Bell for the products it purchases from Northern—you will probably find it strange that I say this—are not really material because the profits of Northern are computed in the earnings of Bell with the result that the profits of Northern, because of higher prices paid by Bell, eventually flow back to the subscriber and, therefore, do not affect the price of the basic telephone service.

The situation would be quite different if Bell were operating as a holding company—holding Northern Electric and holding the operating company—a situation which has developed, as you know, with the American Telephone and Telegraph in the United States where it is a little more complex to examine this pricing structure. Here the holding company happens to be the operating telephone company and the earnings of Northern, whatever they happen to be, flow back to Bell and, therefore, to the advantage of the subscriber. If we were in the other situation which I just described, the profits of both the operating company and of the manufacturing company would flow to the holding company and there would not be that flow of profits between the manufacturing company and the operating company. These factors are also important in the analysis of this situation on top of the conclusion reached by the Board when they went into this whole pricing problem.

**Mr. Lewis:** If this question has been asked before, inform me and I will apologize. What proportion of Northern products is sold to Bell and what proportion to non-Bell?

**Mr. de Grandpré:** It is about 60 per cent—about two-thirds to Bell and one-third to non-Bell.

**Mr. Groos:** May I ask one clarifying supplementary question? In other words, this money from Northern flows to Bell every year, whereas if it were a separate holding company, the profits might be delayed two or three years before they get it?

**Mr. de Grandpré:** If ever.

**Mr. Groos:** Yes, if ever, that was my understanding but I just wanted to be sure.

**Mr. Lewis:** My next question relates to an amendment you soon will have to consider. I think Mr. Reid asked you earlier what was your definition of research and development...

**Mr. de Grandpré:** I am stymied.

**Mr. Lewis:** ...but I want to ask you what you have in mind by a development company as distinct from a research company?

**Mr. de Grandpré:** One is pure research and the other one is what we also call, applied research. One does basic research and the other one tries to adapt the new discoveries to practical applications. It may be I am simplifying and hurting the feelings of the Ph. D.'s, but that is my interpretation of research and development.

**Mr. Lewis:** I think that would be fine, but let me take it one step further. Would you have in mind trying to buy into another manufacturing firm as distinct from the narrower concept of research and development? I think my interpretation would have been the same as yours. You use the word "development" in order to give yourself the authority to make...

**Mr. de Grandpré:** To make prototypes.

**Mr. Lewis:** ...yes, prototypes—sample pieces of equipment—to test them and manufacture them to that extent. Have you a continuing interest in extending your monopoly into other manufacturing areas related to your business?

**Mr. de Grandpré:** We have not shown that continuing interest, Mr. Lewis. We have not extended our operations into any other field during the last 87 years, if you will permit me to underline this.

**Mr. Lewis:** No, but from the little bit I have read of the Minutes and I have looked through them you did take Northern Electric which does not really do much of your research. I gathered from the evidence that most of it is done by Bell itself.

**Mr. de Grandpré:** No, it is the other way around.

**Mr. Lewis:** Oh, it is the other way around?

**Mr. de Grandpré:** Yes. Most of the research and development is done in Northern Electric labs which are located in Ottawa.

**Mr. Vincent:** In regard to your question about our intentions, Mr. Lewis, I tried to explain this on the first day we appeared before the Committee when we were answering questions. When Mr. Reid was probing this point this morning he was concerned not so much with our intentions as with our possibilities. Am I right, Mr. Reid?

**Mr. Reid:** Yes. That is correct.

**Mr. Vincent:** You were not asking what our intentions were but what were the possibilities because people come and go.

**Mr. Reid:** That is correct.

**Mr. Vincent:** You were asking what the possibilities were. To answer your question concerning our intentions, Mr. Lewis. We thought at one point because all the R. and D. at present is done by Northern, at least the greater part of it, that it might be preferable if the R. and D. work were done by a separate organization, not directly under Northern nor directly under Bell, but a separate corporation which would, perhaps, be jointly owned by the two.

• 1600

I do not know what kind of a formula would be necessary but it might be a separate organization which would permit the more basic orientation rather than the development research or manufacturing. Our relations and our contracts with other Canadian companies might be improved because we do have contracts with the other telephone companies with this kind of information, and they might be happier if this were a separate R. and D. rather than an R. and D. organization under the manufacturer. This is what we had in mind. We are not saying we wish to move right away, but we would like to make it clear that this type of investing in R. and D. would be something new for us and this is what we have in mind. I am not saying that other things could not happen, but this is what we have in mind.

**Mr. Lewis:** I asked about intention to start with. I would now like to ask Mr. de Grandpré whether the word "development" in this context might not be wide enough to do what the word you have agreed to delete might have done and could that be the reason you agreed to delete it?

**Mr. de Grandpré:** No. You are reading sinister motives in my mind.

**Mr. Lewis:** Nothing sinister, just intelligent motives.

**Mr. de Grandpré:** No, I think your interpretation of the word "development" is much broader than mine. I gave you quite a candid answer about what I thought "development" was in this context. I think, Mr. Lewis you have to read this in the light of the assistance given by the federal government to research and development operations. I think it is the same kind of connotation that I see in research and development under clause 8.

**Mr. Lewis:** Mr. de Grandpré, the reason I ask this is because over the lunch hour I have been thinking about it and it seems to me—if your answer is correct and I must say, as I said before, that would be my interpretation of the words, but if we were both correct—that if this power was retroactive you could not own Northern Electric?

**Mr. de Grandpré:** No, I think I tried to make my point clear this morning. We have the power to own Northern Electric because we have the power based on this pair of wires which we have mentioned before. We were trying to clarify this by having the words, in whole or in part, similar to the object of the company. However, I do not think that the powers to invest in Northern would be affected by this new clause to any extent.

**Mr. Lewis:** I am not going to enter into a legal argument about the retrospective effect of an amendment made now. I will be very frank with you, this is why I have uneasiness in my mind about the ease with which Bell agreed to remove the word that you have agreed to remove. If these were your powers formerly; if you did not have the language, which you had previously, which referred to telephone lines and someone was able to find so many—I forget how many—feet of those; if the Board were satisfied that that met the requirement of the act and this does not have any such reference; if you did not have it in the present section as you discussed its amendment; if you had only the right to purchase or otherwise acquire and to hold shares, bond debentures or other securities in any company engaged in research and development and nothing else; then you could not acquire or buy into a company similar to Northern Electric unless you extended the term "research and development" to permit you to acquire a company that also manufactured and sold the product on the market. I



frankly have a suspicion in my mind about why you should agree so quickly to limit yourself?

**Mr. de Grandpré:** Well this is where you are wrong, I did not agree very quickly.

**The Chairman:** Mr. Lewis, I was going to point that out. You have not been at these meetings but I am sure Mr. Schreyer and Mr. Saltsman said that there was no quick decision on their part. It was very reluctant. I just brought it home to them that they had best do that if they wanted to get the bill through.

**Mr. Lewis:** Well why do you agree even reluctantly to limit yourself?

• 1605

**The Chairman:** They got the message.

**Mr. Lewis:** Perhaps, Mr. Chairman, you should let Bell answer it. It might be more authoritative coming from them than from you.

**The Chairman:** I have dealt with it a little closer than you have.

**Mr. Lewis:** I know. I am sure you have and I am not questioning your authority in that respect at all Mr. Chairman. What you are doing is in effect saying to us that you cannot divest Northern Electric from us but from now on we are not going to have anything to do with a company which manufactures and sells on the market.

**Mr. de Grandpré:** No, we do not say that. We say that as far as a new company is concerned we will be limited to a company involved in research and development work in areas of inquiry that relate to the objects of this company.

**Mr. Lewis:** You would not have another company like Northern from now on? I mean you would have Northern which you already have but you would not have an additional one like Northern?

**Mr. de Grandpré:** No. I see no reason right now why we would duplicate the Northern operation.

**Mr. Lewis:** Would you, therefore, have any objection if some of us moved an amendment to make that clear; qualifying the term "research and development" with some negative word that excluded any new company from

doing more than what you and I have said on research and development?

**Mr. de Grandpré:** Well, I would like to have a look at the words, to examine them.

**Mr. Lewis:** You would have no objection in principle?

I admit Mr. de Grandpré that there is a great deal of economic advantage in some of the integration obviously, but you have horizontal as well as vertical integration when you take in manufacturing as well as other aspects.

Some of us are concerned about the extent to which monopolistic organizations should be given, by Parliament, the opportunity to continue building empires of that sort. As far as I and my colleagues are concerned, we want to be certain in our minds, before we agree to the passage of this bill in the House, that from now on you would not be able to increase your industrial empire as well as the research and development operation that you carry on.

**Mr. Bell (Saint John-Albert):** Surely a partial answer to Mr. Lewis' fears is the fact that now the Combines Branch is investigating Bell and Northern. I imagine you feel you could not make any moves of the nature Mr. Lewis might have in his mind at all without discussing this with Combines or, even being precluded in the first instance from doing so.

**Mr. de Grandpré:** We certainly would, if we were to enlarge our power—to use the words of Mr. Lewis—have to be very careful that we were not violating the Combines Act because we are still subject to the Combines Act like any other corporation in Canada. As you say, this certainly should alleviate some of the fears expressed by Mr. Lewis.

**Mr. Bell (Saint John-Albert):** I do not mind saying that this is one reason I think the inquiry that we have been told about helps me, as far as these amendments are concerned, because Mr. Henry has stated—I looked this up on page 11—that this particular inquiry, Mr. Lewis, directly concerns the relationship between Bell Telephone and Northern Electric.

Now I admit that does not discharge fully our responsibility here but it makes me feel better because if we were in some way increasing powers it still is being investigated by the Branch. You undoubtedly would be extremely careful about any moves in this regard because of that reason.



• 1610

**Mr. de Grandpré:** That is correct.

**Mr. Bell (Saint John-Albert):** Then one other question that came to my mind. Mr. Vincent mentioned the intentions of the company and there was criticism by some of the previous witnesses about the subsidiaries Northern had. I do not know how much knowledge you have of Northern but can we be assured that it is not your intention to increase these subsidiaries, or is it not a fact that you have divested yourself of this type of activity?

**Mr. de Grandpré:** I think it is important to bear in mind that the only subsidiaries of Northern today are the following. There is a company called Norel Real Estate Company which was a subsidiary formed to be the real estate holder for Northern Electric but this company never came into legal existence. The charter is there but it was never used. I understand they are now taking steps to surrender this charter. They are also in a company called Northern Electric Caribbean Limited which is a company also involved in telecommunications but there again it has never been operative.

There is a company called Dominion Sound which is not a subsidiary of Northern Electric, but Northern Electric have a one-third interest in Dominion Sound. The history of Dominion Sound is that at one time Northern Electric was manufacturing, under licence, sound equipment that had been developed by Western Electric and, as Mr. V. O. Marquez indicated during his evidence, you probably remember having seen Western Electric sound equipment when you see pictures.

Over the years it was found necessary to instal and maintain the equipment that was manufactured and sold by Northern Electric.

Then at one point I think Famous Players became involved in similar sound equipment and they had their own company. Originally the company operated by Northern Electric was called General Sound and they tried to sell their General Sound business to Dominion Sound, but apparently the negotiations did not materialize and eventually General Sound more or less merged, if you want, with Dominion Sound and in Dominion Sound Northern have a one-third interest.

The reason why General Sound was not wound up at the time, amongst other things, was that there were several employees that

had been with the company for a certain length of time and if Northern had completely abandoned the General Sound operation these people would have been without employment, so it was felt it was better to continue in a joint operation under the Dominion Sound name.

I think Mr. Marquez has also indicated in his evidence that this is far from being a very profitable operation and that they would like to get rid of this Dominion Sound's third interest that they have. So these are the subsidiaries of Northern, and the only one that is not strictly related to telecommunications, if you wish, is Dominion Sound but there a historical background to it and it is a very minor operation.

Now so far as Bell's subsidiaries are concerned, the only subsidiary besides Northern are all telephone companies—all of them—so that we are not branching out in all sorts of activities as some people thought or suggested.

**The Chairman:** Instead of going to random questions on various parts, suppose we start calling the clauses and then whatever questions there are on a certain clause we can deal them more specifically.

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**Some hon. Members:** Agreed.

Clauses 1 to 3 inclusive agreed to.

**The Chairman:** Clause 4 is going to be deleted.

**Mr. de Grandpré:** That is right.

**The Chairman:** Is it agreed?

**Some hon. Members:** Agreed.

**The Chairman:** It is agreed that clause 4 be deleted on consent of the company.

**Mr. Lewis:** I do not want to sound technical...

**The Chairman:** I am trying to figure this out myself.

**Mr. Lewis:** We have to have a motion. I have great respect for Bell but they are not going to say whether or not some clause is going to be deleted.

**Mr. Reid:** I move that clause 4 be deleted.

**Mr. Lewis:** I second the motion.

**Mr. Rock:** Wait a minute. Excuse me, clause 4 is not being deleted; clause 4 is being adopted, you mean.

**The Chairman:** Deleted. It has been moved by Mr. Reid and seconded by Mr. Lewis that clause 4 be deleted. Now, do you want to say something, Mr. Rock?

**Mr. Rock:** Yes; if you are deleting it are you going to replace it by something?

**The Chairman:** No.

**Mr. Rock:** If you are deleting it that means section 2 of Chapter 39 of the Statute of 1957 remains.

**The Chairman:** That is right.

**Mr. Lewis:** And then you can move your amendment.

**Mr. Rock:** Well, I think first of all we should have a vote on whether it should be deleted or not.

**The Chairman:** It has been moved by Mr. Reid, seconded by Mr. Lewis that clause 4 be deleted. All those in favour? Opposed?

Motion agreed to.

**The Chairman:** Now Mr. Rock, you want a clause 4 added that says:

any savings plan involving the issue of shares to employees of the company and approved by the Canadian Transport Commission may be extended to employees of subsidiaries designated by the Company without further approval of the Commission.

That is what you really want, the latter part of that. In other words, to get around the judgment of the Board of Transport Commissioners, Number 36730.

**Mr. Rock:** I so move.

**Mr. de Grandpré:** Mr. Chairman...

**The Chairman:** Just a moment, Mr. de Grandpré. Is there a seconder for this motion?

**Mr. Byrne:** I second the motion.

**Mr. de Grandpré:** On this point, just so you will understand what the problem was before the Board of Transport Commissioners, I would simply like to refer you to the judgment you now have before you, gentlemen. The relevant sections appear at the top of page 6, the first full paragraph and the third paragraph on page 7. These two paragraphs

deal with the problem of extension of the privileges of the savings plan to employees of subsidiaries.

**Mr. Lewis:** They are not very revealing.

**Mr. de Grandpré:** I beg your pardon?

**Mr. Lewis:** They are not very revealing as to their reasons.

**Mr. de Grandpré:** That is why I said this morning that the inference was that we had not discharged the burden of proof. If you read the paragraph on page 7 it says,

We have not been persuaded that the "Employees' Savings Plan" should be extended to subsidiaries.

**Mr. Byrne:** Maybe we have.

**Mr. de Grandpré:** I beg your pardon?

**Mr. Byrne:** I said, maybe we have.

**The Chairman:** Mr. de Grandpré, it says it could be reviewed by the whole Board. Have you ever made application for the whole Board to review it?

**Mr. de Grandpré:** We have not made such an application yet, Mr. Chairman.

**Mr. Lewis:** One is always in some difficulty about these things and I do not know enough about it, whether it would benefit Northern Electric employees to have access to this savings plan. I certainly would not like to stand in the way, but it seems to me that there is a principle involved.

# • 1620

If these matters are left by law to the CTC to decide, why should Parliament make a specific exception and say in this case, because you decided a certain way, we are from now on going to say to the Company it does not have to come back to you for permission. All Mr. Rock's amendment really amounts to is the fact that under the present

section 2 in the old Act the company would have to go to the Canadian Transport Commission for permission to extend the savings plan. Under Mr. Rock's amendment we say that in this particular case you can do it without seeking CTC permission, and at the moment I am opposing it.

**The Chairman:** This is the point Mr. Bell raised this morning.

**Mr. Lewis:** Yes; and I was impressed by Mr. Bell's point. Why should we make this particular exception? If it is of advantage then why should not Bell do what is suggested in the judgment, namely, make application to the whole Board? Perhaps they can persuade the Board that it is good for the employees of Northern and for the customers of Bell? Or, at least, that it is good for the employees and not harmful to the customers.

**The Chairman:** That is one reason for my asking of those interested if an application had been made.

**Mr. de Grandpré:** We have not re-applied yet, Mr. Chairman.

**The Chairman:** In any event, we just do not have sufficient information on which to assess the merits of this matter and to decide whether it is good or bad.

**Mr. Reid:** Mr. Chairman, may I ask a question? Is there any other company that is similarly limited in extending this type of program to its subsidiaries?

**Mr. de Grandpré:** As I said this morning, Mr. Reid, we made an exhaustive study of some 10 or 15 companies at the time—I cannot remember the exact number—and some of them had extended this to their subsidiaries. However, the approach taken by companies was not a unanimous one and there were some that had not extended this.

**Mr. Reid:** But there were examples of this having been done?

**Mr. de Grandpré:** Oh, yes; quite a substantial number of companies.

**Mr. Reid:** Is yours the only company in Canada that has this particular difficulty with the CTC? Do the railroads have the same problem?

**Mr. de Grandpré:** No.

**Mr. Reid:** So you are the singular instance, then. Yours is the only company that is so limited?

**Mr. de Grandpré:** We are the only company, with the possible exception of B.C. Telephone, which would be in the same position. I cannot be too sure of my answer there...

**An hon. Member:** You mean before the Board?

**Mr. de Grandpré:** That would have to go to the Canadian Transport Commission—as with the former Board of Transport Commissioners—to obtain approval of the issuance of shares to employees.

**Mr. Reid:** This provision is contained in the original clause that we moved to retain.

**Mr. de Grandpré:** That is right. It is contained in clause 2 of the Act of 1957, which is contained in 6 Elizabeth II. May I read it for the information of the Committee, Mr. Chairman?

**Mr. Lewis:** It is in our amendment.

**Mr. de Grandpré:** You are absolutely right, Mr. Lewis. It is the first portion of the amendment.

**The Chairman:** Mr. Byrne?

**Mr. Byrne:** Mr. Chairman, I think it would be consistent for legislators to be interested, so I cannot see anything wrong with this, if it is something that the employees and the company want. If we find it impractical to do, or if there is some legal reason...

**The Chairman:** I am not speaking for or against it. I do not believe we have sufficient evidence before us Mr. Bell, to make an assessment. The Company has not really exhausted all its avenues. Perhaps it should be allowed to do so.

**Mr. Bell (Saint John-Albert):** I appreciate Mr. Rock's intentions here, but is there not another slight matter of principle involved?

We are now legislating in a direct way on behalf of certain company employees. We admit that we do not have full knowledge of all the different problems involved in this matter.

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It strikes me that the Transport Commission should consider this matter, because for a hundred reasons that one can think of they might wish to limit this permission to a certain period of time, or to re-examine it, or they might, on behalf of shareholders, subscribers, or taxpayers, consider that it should not be given.

I am not speaking about the company here involved. You people have to initiate this if you decide you want it done. I still feel that it might be better left in the hands of the Transport Commission, with knowledge of the situation at the time, rather than having Parliament legislate that this be given forever in



the future. It is not all that serious a matter, but it could be, if there is some responsibility here that we should leave to the regulatory board.

**Mr. Southam:** Mr. Chairman, listening to the discussion on this particular issue, I have every sympathy with the thought contained in Mr. Rock's proposed amendment, but there again I would like to have an expression of opinion from Mr. de Grandpré and Mr. Vincent.

**Mr. Byrne:** I withdraw my support of the motion.

**The Chairman:** Let us hear from Mr. Vincent.

**Mr. Rock:** First of all, may I say something?

**The Chairman:** Mr. Rock, you moved the motion. You have the last word.

**Mr. Rock:** Yes; but before I have the last say someone is withdrawing...

**The Chairman:** Mr. Rock, will you allow Mr. Vincent to explain, please?

**Mr. Vincent:** I appreciate the questions from the two members, and can understand the concern that you gentlemen have for the employees and the company in this, but the Board of Transport, as it was then—now the Railway Transport Committee—have indicated that they are quite willing to have a full Board hear us again. I would like to say to you, to underline our appreciation of your concern, that we intend to go back. This is the question you are asking. I had a discussion some time ago with the Chief Commissioner of the Board of Transport. He knew that we intended to go back. It is a question of the appropriate time to appear before the new Commission. We do intend to present the case again to a full Board.

**Mr. Southam:** This is in line with the suggestion made by Mr. Bell, and which was followed up by Mr. Lewis that we could be creating a rather dangerous precedent.

**The Chairman:** Perhaps we can have this resolved more speedily if we have a seconder.

**Mr. Byrne:** What I wanted to know exactly was whether the fact that we are deleting clause 4 is forever going to prevent your doing what you deem the reasonable thing to do?

**Mr. Vincent:** I did not wish to enter into the debate. I felt it was for the Committee to decide.

**Mr. Byrne:** But you have indicated that you are going to follow through.

**Mr. Vincent:** I do wish to indicate that.

**The Chairman:** We appreciate Mr. Vincent's remarks. Mr. Rock.

**Mr. Rock:** Mr. Chairman, first of all, if I may revert to the hearings that we had in the past, I asked the officials from the Bell Telephone and the Northern Electric Company about this employee-sharing plan and they all would have been very happy had they had the direct power to introduce this plan.

**The Chairman:** We are not arguing about that, Mr. Rock.

**Mr. Rock:** Wait a moment. They would be very happy if we could do this for them. We, as legislators, are in a position to give them that power. The company has operated in the past in such a way that today its ownership is 95 per cent Canadian. Had it not been for Bell's employee plan in the past, I doubt that it would have been 95. It could have been only 50 per cent or 60 per cent Canadian.

**The Chairman:** That is not what we are arguing about.

**Mr. Rock:** Just a moment, Mr. Chairman. There is a trend in Canada towards Canadian ownership. The Bell Telephone Company is asking for power to undertake \$700 million worth of expansion in the future. There is a big financial potential in the employees of Northern and other subsidiaries. I feel that there is nothing wrong with this clause. As legislators, we are not doing anything except giving them the power to do it directly, so that they will not be regulated in this sense. I cannot see anything wrong with that at all.

• 1630

**The Chairman:** No one is arguing with the principle of what you are trying to do Mr. Rock, it is just the technicalities that bother members of the Committee. I think in light of the avenue still being open to the company—there is an intention to go back to the whole board—unless you can find a new seconder, then...

**Mr. Rock:** Well if anyone wants to second it, I would be pleased and if not...

**The Chairman:** A seconder?

**Mr. Groos:** Could I make a comment, Mr. Chairman?

**The Chairman:** There is nothing to be debated Mr. Groos, until we have a seconder on the motion.

**Mr. Rock:** Second it first and then comment.

**The Chairman:** If there is no seconder then there is no motion.

**Mr. Groos:** I think it might ease Mr. Rock's conscience a little bit though if we...

**The Chairman:** Mr. Rock knows what the thinking is, I am sure. It is not a matter of opposition, it is a matter of technicality. I think if there is no seconder, there is no motion and we will go on.

**Mr. Rock:** You have done a very good job, Mr. Chairman.

**The Chairman:** I am doing my job, Mr. Rock, thank you.

Clause 5 will be re-numbered clause 4. We will do it by the numbers in the book then we will change them.

**The Chairman:** Shall clause 5 carry?

Clause 5 agreed to.

**Mr. Groos:** Could you remove any doubt as to what clause you are talking about?

**The Chairman:** Page 4, clause 5.

**Mr. Groos:** All right. Yes, old clause 5, new clause 4; that is better.

**The Chairman:** Old clause 5, new clause 4.

**Mr. Groos:** That is better.

**The Chairman:** Shall old clause 6, new clause 5 carry?

Old clause 6, new clause 5 agreed to.

Now, on clause 7, which will be re-numbered new clause 6, there is an amendment which you have in your possession. Mr. de Grandpré, do you want to make any comments on the amendment?

**Mr. de Grandpré:** The only comment I want to make in connection with this new clause 7 now before you gentlemen is that it is, I hope, a successful attempt to put in legislative form the things I have said this morning. So we would be giving the necessary assurances to people about our ability to become broadcasters, CATV operators, publishers moulding the thinking of the country,

preventing interconnections and things like that.

**Mr. Lewis:** Mr. de Grandpré, forgive me if I seem to be interrupting, but would you, Mr. Chairman read this amendment?

**The Chairman:** Yes.

**Mr. Lewis:** I just walked in and have not yet digested it.

**The Chairman:** That Clause 7 be amended as follows:

7. Section 5 of chapter 81 of the statutes of 1943 is hereby repealed and the following substituted therefor:

"5. (1) It is hereby declared that subject to the provisions of the Radio Act and of the Broadcasting Act and of any other statutes of Canada relating to telecommunications or broadcasting, and to regulations or orders made thereunder, the Company has the power to transmit, emit or receive and to provide services and facilities for the transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electromagnetic systems and in connection therewith to build, establish, maintain and operate, in Canada or elsewhere, alone or in conjunction with others, either on its own behalf or as agents for others, all services and facilities expedient or useful for such purposes, using and adapting any improvement or invention or any other means of communicating.

#### Subsection

(2) Without in any way restricting the generality of subsection (1), the Company and its subsidiaries do not, however, directly or indirectly or by any other means, have the power to apply for or to be the holder of a broadcasting license as defined in the Broadcasting Act or of a license to operate a commercial Community Antenna Television Service.

#### Subsection

(3) The Company shall, in the exercise of its power under subsection (1), act solely as a carrier, and shall neither control the contents nor influence the meaning or purpose of the message emitted, transmitted or received as aforesaid.

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#### Subsection

(4) If any equipment, apparatus, line, circuit or device not provided by the Company



be attached to, connected or interconnected with, or used in connection with the Company facilities, such attachment, connection or interconnection shall be made in conformity with such reasonable requirements of the Company.

#### Subsection

(5) Any person who is affected by any requirements prescribed by the Company under subsection (4) may appeal to the Canadian Transport Commission which shall hold public hearings to determine the effect of these attachments, connections or interconnections on the cost and value of the service to the subscriber, and thereafter decide if such requirements are reasonable and in the public interest.

The Commission may disallow any such requirements as it considers unreasonable or contrary to the public interest and may require the Company to substitute requirements satisfactory to the Commission in lieu thereof or prescribe other requirements in lieu of any requirements so disallowed.

The decision of the Commission is subject to review pursuant to Section 53 of the Railway Act."

Now, I should point out to the Committee that I met with Mr. de Grandpré at noon and went over his amendments. There were amendments that I had forwarded to me as a result of our continuous informal discussion with Mr. Henry and with the Department of Transport. The amendment to clause 7 is in line with their recommendations. Actually I should give Mr. de Grandpré the credit; his amendments were forwarded to the Department of Transport and to Mr. Henry for their consideration. They have offered some amendments to his draft and what I have just read is a compilation of the two. The main part is in subsection (5), with respect to the Transport Commission having the power to hold public hearings and the appeal procedures. The only thing added by Mr. de Grandpré was:

The decision of the Commission is subject to review pursuant to Section 53, of the Railway Act.

As you know Mr. Lewis this brings it to the Governor in Council and the Supreme Court.

Information forwarded to me, on the review of these departments with respect to the appeal procedure indicates there have been some informal discussions with officials

of the Canadian Transport Commission with respect to the proposed clause 7 amendments and the appeal to them, and they have no objections to the form of this provision, which is almost the same as section 380, subsection 6 of the Railway Act, although it deals with a different subject. I wanted to give you the background on these amendments and the compilation of thoughts; Mr. de Grandpré's, those from DOT and Mr. Henry's office.

**Mr. Rock:** In other words...

**The Chairman:** Just a moment Mr. Rock, Mr. Bell you are next.

**Mr. Bell (Saint John-Albert):** In other words Mr. Chairman, any fears that Mr. Henry may have expressed about the amendments that Bell desire have now been substantially dissipated.

**The Chairman:** Mr. Henry was brought into the picture right from the very beginning. I had constant discussions with him, with his office, and I might say there is a gentleman here from Mr. Henry's office observing these proceedings. The draft I have is from Mr. Ryan who is in Mr. Henry's office and the comments are from the Department of Transport. The two departments have been kept constantly informed by me and I have sent copies of amendments to get their views. There has been an interrelation between Mr. de Grandpré, the departments, and me, on their views. This was approved by Mr. Henry.

**Mr. Bell (Saint John-Albert):** And the CTC accepts these new powers and responsibilities that we are conferring on them?

**The Chairman:** I can only go by the notation that was sent to me by the Deputy Minister of Transport this morning and which says, with respect to paragraph 5:

It would appear from the informal discussions with officials of the CTC that the proposed Clause 7 is not likely to elicit any objection from the Commission as to the form of this new provision which, incidentally, is similar in form to Section 380(6) of the Railway Act, although dealing with a different subject matter.

#### • 1640

**Mr. Bell (Saint John-Albert):** I just have one other question. I notice that in the original amendment in subsection 7 you have taken out the opinion or the discretion of the Board of Directors. I suppose this was taken



out because you feel this has been restricted in the later clauses. But, I wonder if that should not have been left in.

**Mr. de Grandpré:** May I comment on this, Mr. Chairman?

**Mr. Bell (Saint John-Albert):** In other words, I feel perhaps we should give you something; you have been losing so much today.

**Mr. de Grandpré:** If I may, Mr. Chairman? The reason we dropped the last two lines of Clause 5 was because some concern was expressed that the Board of Directors would be the only judge, in a sense, of the interest, and as this only referred to the interest of the Company, the Company should have the public interest in mind when making these decisions. Probably the same results will be achieved, but it is less shocking—let us put it that way.

**Mr. Lewis:** You have the power anyway. I have one or two questions, Mr. Chairman, if no one else has any.

**The Chairman:** I am sorry, I have Mr. Rock on my list.

**Mr. Rock:** Are you sure, Mr. Chairman, with this complex amendment that you are not prohibiting them from even being in the telephone business?

**The Chairman:** I do not think Bell really is concerned about their profits on that score, Mr. Rock.

**Mr. Lewis:** Mr. Chairman, I do not know whether you are going to take the amendments subclause by subclause.

**The Chairman:** Yes, subclause (1) would be the first one, I believe.

**Mr. Lewis:** Fine; I do not have any comments on it.

Subclause (1) agreed to.

On Subclause (2).

(2) Without in any way restricting the generality of subsection (1), the Company and its subsidiaries do not, however, directly or indirectly or by any other means, have the power to apply for or to be the holder of a broadcasting license as defined in the Broadcasting Act or of a license to operate a commercial Community Antenna Television Service.

**Mr. Lewis:** Mr. Chairman, I do not like the introductory words:

Without in any way restricting the generality of subsection (1)...

I have never liked the use of such words in statutes unless they are absolutely essential. I do not know what they mean. The words either mean the restriction that is contained in that subsection or they do not. If they do mean that, obviously they restrict the generality of subsection (1). I would like to suggest—I will move it if necessary—that those words be deleted and be replaced by the simple words “notwithstanding subsection (1)”. What we really mean is, “notwithstanding the wide language of subsection (1), the Company will, however, not be able to do such and such”.

**Mr. de Grandpré:** I think I am prepared to share Mr. Lewis' concern about this expression. It is widely used, but it leaves some confusion at times.

**Mr. Lewis:** It is widely abused, too.

I move that the words “without in any way restricting the generality of” be deleted, and the word: “Notwithstanding” be substituted.

**Mr. Pascoe:** I second the motion.

Amendment agreed to.

Subclause (2) as amended agreed to.

Subclause (3) agreed to.

On subclause (4).

(4) If any equipment, apparatus, line, circuit or device not provided by the Company be attached to, connected or interconnected with, or used in connection with the Company facilities, such attachment, connection or interconnection shall be made in conformity with such reasonable requirements of the Company.

**Mr. Lewis:** Wait a minute, I have a question, not as a lawyer, but as a person interested in language. I wonder what the word “such” refers to in the second last line of subclause (4)?

**Mr. de Grandpré:** “shall be made in conformity with reasonable requirements of the Company?”

**Mr. Lewis:** Surely the word “such” does not have any back reference.

**Mr. de Grandpré:** Ah, these lawyers.

**Mr. Lewis:** This is not because I am a lawyer; this is simple English.

I move that the sixth last word "such" in subclause (4) be deleted.

**Mr. Groos:** I second the motion.

Amendment agreed to.

• 1645

**Mr. Schreyer:** Before passing on to the next subclause I would like to ask Mr. de Grandpré at whose request did you include this subclause (4)? To put it another way in order to accommodate whose concern was it included?

**Mr. de Grandpré:** I do not think it was done at the request of any particular person. What I tried to do, Mr. Schreyer, was to take the pulse of the representations made here so we would have a bill that would meet the—I would call them—national objectives and the objectives of the Company. We have tried to reconcile them so we would have a workable bill. I had the feeling there were people who were uneasy about the fact that we had a final say on interconnection problems and were judge and party at the same time. This was the origin of this approach. I do not think I can identify any particular group that requested the subclause. You can go through the evidence and you will see that a number of members expressed this concern. I think Mr. Reid expressed some concern during the discussion on our presentation.

**The Chairman:** I discussed it with Mr. de Grandpré, also, Mr. Schreyer.

**Mr. de Grandpré:** This was discussed with the Chairman and with DOT.

**Mr. Schreyer:** That is fine, thank you.

**Mr. Lewis:** I suppose you need subclause (4) in order to be able to have subclause (5)?

**Mr. de Grandpré:** That is correct.

Subclause (4) as amended agreed to.

On subclause (5).

(5) Any person who is affected by any requirements prescribed by the Company under subsection (4) may appeal to the Canadian Transport Commission which shall hold public hearings to determine the effect of these attachments, connections or interconnections on the cost and value of the service to the subscriber, and thereafter decide if

such requirements are reasonable and in the public interest.

The Commission may disallow any such requirements as it considers unreasonable or contrary to the public interest and may require the Company to substitute requirements satisfactory to the Commission in lieu thereof or prescribe other requirements in lieu of any requirements so disallowed.

The decision of the Commission is subject to review pursuant to Section 53 of the Railway Act."

**Mr. Lewis:** I am a little concerned about the limitation on the kind of things that the public hearings can determine. Are they necessary? I refer to the words:

... Commission shall hold public hearings to determine the effect of these attachments, connections or interconnections on the cost and value of the service to the subscriber...

I would certainly be interested in that being considered, but I imagine there may be other things the Commission might want to consider. I am not raising this point for any ulterior motive in terms of the Company's, the subscribers' and the public interest. Is it necessary to include what are, essentially, limiting words, or could not the Commission simply hold public hearings to determine whether such requirements are reasonable and in the public interest? Is that not enough? They can, of course, take other things into account.

**The Chairman:** I think it will be brought in on the economic aspect.

**Mr. de Grandpré:** The reason these words were inserted, Mr. Lewis, was to try to meet the two points I was making this morning. There are really two problems involved. There is the technical aspect which is going to be taken care of by the words "value of the service" because if the transmission is poor then you do not get your "value of the service". The other was the economic aspect and this is why we have the words cost ... of the service to the subscriber". These are more or less reference yardsticks, if you wish.

**Mr. Lewis:** You do not think they are limiting?

**Mr. de Grandpré:** I do not think so.

**Mr. Saltzman:** This is being proposed so that you will not be limited and restricted.

Otherwise you may be unduly restricting yourself because other factors may enter into it that do not affect the subscriber; they may affect the well-being of the company, as well, over the long run.

**Mr. de Grandpré:** I am not uneasy about these words.

Subclause (5) agreed to.

Old Clause 7, new clause 6 as amended agreed to.

• 1650

**The Chairman:** I have an amendment in respect to clause 8, which is before you. Old clause 8, new clause 7, reads as follows:

For the purpose of carrying out its corporate powers the Company is empowered to purchase or otherwise acquire, and to hold shares, bonds, debentures or other securities in any other Company engaged in research and development work in areas of inquiry that relate to the objects of this Company and to sell or otherwise deal with the same.

The notations that I have from Mr. Henry's office and from DOT indicate that there is no objection to the wording of this clause.

May I have a motion to delete old clause 8, and insert new clause 7?

**Mr. Lessard:** I so move.

**Mr. Southam:** I second the motion.

**Mr. Lewis:** Mr. de Grandpré, without moving an amendment at the moment, I would like to be persuaded that it is not necessary, if you think it is not necessary, to add to the proposed new clause after having changed the period after "same" to a comma, the following additional words: "provided that such other companies do not manufacture products for sale to the Company or to other customers."

**The Chairman:** Would you write that out, Mr. Lewis, and have it sent up to me please.

**Mr. Lewis:** I have it with me.

**The Chairman:** You are not moving it yet?

**Mr. Lewis:** If you want me to I will, but I would much rather have Mr. de Grandpré comment first.

**The Chairman:** Well, we cannot discuss the amendment unless it is moved.

**Mr. Lewis:** Well I suppose I can withdraw it, if necessary.

**The Chairman:** It is moved by Mr. Lewis and seconded by Mr. Schreyer that new Clause 7 be amended to read as follows:

For the purpose of carrying out its corporate powers the Company is empowered to purchase or otherwise acquire, and to hold shares, bonds, debentures or other securities in any other Company engaged in research and development work in areas of inquiry that relate to the objects of this Company and to sell or otherwise deal with the same, provided that such other companies do not manufacture products for sale to the Company or to other customers.

**Mr. de Grandpré:** If you want my comments on this, I do not think that this clause could be acceptable because it could render absolutely illegal any further investments in Northern Electric, and of course I think you will agree with me as a matter of legal interpretation, Mr. Lewis, that this is a situation that the company could not live with.

**Mr. Lewis:** It would not have the effect of making you divest yourself of Northern Electric?

**Mr. de Grandpré:** No, but...

**Mr. Lewis:** It could prevent you from investing further in Northern Electric.

**Mr. de Grandpré:** That is right.

**Mr. Lewis:** It certainly would not be to anyone's advantage.

**Mr. de Grandpré:** That is correct.

**The Chairman:** Shall the mover and the seconder agree to withdraw the motion?

**Mr. Lewis:** I am very anxious about this point, and I may say, Mr. Chairman, that there are others who are very anxious about it too.

**The Chairman:** We have had some very strong representations in this Committee on this point, Mr. Lewis.

**Mr. Lewis:** And in other places. As Mr. de Grandpré is much better at drafting than I, would it be possible for him to reword what I suggested in such away as to not affect the existing subsidiaries of the Company?



• 1655

**Mr. de Grandpré:** I will be quite candid in my answer. This is the problem that we are confronted with in connection with our bill: representations have been made that a situation presently exists between Bell and Northern and that this bill should not affect in any way this relationship. Either it is good or it is not good, it is legal or it is illegal, it is in the interests of the country or it is not in the interests of the country, but this is a situation of fact that exists today, and an investigation is now going on to determine the economic aspect of this problem. The reason that we have introduced these words in the form of an amendment is that it does not alter the status quo of the relationship, and this was the main objective that we had in mind.

**Mr. Bell (Saint John-Albert):** As one who asked some of the questions regarding the powers of clause 8, I felt at the time that we should somehow attach an approval by the Governor in Council or the CTC for any new acquisitions. However, after thinking about it I am convinced that we have not the machinery for this type of thing, even if it were desirable. It is the type of thing that I feel is more related to the government than to the Commission itself. Although it is a matter that elected representatives should be involved in they have not the machinery to do it, and I am quite happy to live with it. It has been restricted and, as you say, a lot of the activities that might be involved here and now subject or will be subject to the Combines Branch—at least they should be.

**Mr. de Grandpré:** And they are also covered by the very restrictive words that we have used in connection with clause 7.

**Mr. Bell (Saint John-Albert):** Yes.

**Mr. Schreyer:** Mr. Chairman, I think the question should be put again. Mr. de Grandpré found the amendment offered unacceptable because it impinged on the Bell-Northern relationship. If that could be taken care of by rewording why then would you still maintain opposition?

**Mr. de Grandpré:** That is why I said that before answering your question I wanted to have the words before me. We are dealing here with a real technical problem of wording and I am not prepared to answer yes or no without having the words before me.

**The Chairman:** Is it the wish of the mover and seconder to withdraw their motion?

**Mr. Lewis:** Mr. Chairman, I would be prepared to withdraw this motion if you would permit me to reserve the right to introduce another one when I have a little more time to draft it in such a way as to meet the point.

**The Chairman:** You could withdraw it and we could stand clause 8 and come back to it.

**Mr. Lewis:** If you will do that.

Old clause 8, new clause 7, stood.

Old clause 9, new clause 8 agreed to.

Old clause 10, new clause 9, agreed to.

On old clause 11, new clause 10. *Construction and maintenance of line.*

**Mr. de Grandpré:** Mr. Chairman, there is a typographical error in the English copy only of old clause 11 that I would like to draw to your attention. In the first line, "Section 5 of chapter 67" should read "Section 3 of chapter 67".

**Mr. Byrne:** I move that "Section 5 of chapter 67" in the first line of old clause 11 of the English copy only read "Section 3 of chapter 67".

**Mr. Bell (Saint John-Albert):** I second the motion.

Amendment agreed to.

• 1700

**Mr. de Grandpré:** Mr. Chairman, I have just drawn to your attention a typographical error in old clause 11. I would also like to remind you that Mr. Lovell Carroll made representations before this Committee on November 7, 1967 and at page 167 of the transcript these words appear:

On the other hand the Bell Telephone Company of Canada has sought through Bill C-239, which is now Bill C-104, to extend its powers to not only telephone and telegraph wires but to telecommunications and all our amendment seeks to do is to have the appropriate clause 11 of Bill C-104 amended by replacing the period after the word "incurred" at the end thereof with a semicolon and adding the following:

and Section 378 (except subsection 1) of the Railway Act shall apply to the Company insofar as line or lines of telecommunication are concerned.

**Mr. Lessard:** I move that old clause 11, new clause 10 be further amended by in-

serting after the word "incurred" a semicolon and adding: "and section 378 (except subsection 1) of the Railway Act shall apply to the company insofar as line or lines of telecommunication are concerned."

**Mr. Cantelon:** I second the motion.

Amendment agreed to.

Old clause 11, new clause 10, as amended agreed to.

On old clause 12, new clause 11—*Loans to employee-shareholders.*

**Mr. de Grandpré:** May I make a comment on this, Mr. Chairman?

**The Chairman:** Yes, Mr. de Grandpré.

**Mr. de Grandpré:** We have received representations to the effect that after the word "employee" which appears twice in clause 12, we should add the words "or pensioner", because the problem that we are trying to cure for employees equally applies to pensioners.

**Mr. Lewis:** Is every retired employee a pensioner? In other words, does "pensioner" cover all the employees who are retired or should you use the term "retired employee" rather than "pensioner"?

**Mr. de Grandpré:** I think you have a point. The words "or retired employee" should appear in the third line after "loans to any employee" and they should reappear again in line 5 so as to read "employee or retired employee is a shareholder of the Company."

**Mr. Lessard:** I move that old clause 12, new clause 11, be amended by inserting in the third and fifth lines of the clause after "employee" the words "or retired employee".

**Mr. Southam:** I second the motion.

Amendment agreed to.

Old clause 12, new clause 11, as amended agreed to.

On old clause 13, new clause 12—*Housing plans*

**The Chairman:** Mr. de Grandpré, I think you have a comment on this.

• 1705

**Mr. de Grandpré:** The reason, that this clause was introduced, Mr. Chairman, is that

in certain special circumstances we have to extend our service to areas which are not yet developed or are in the process of being developed. Therefore the Company has to move these employees for some periods of time and accommodate them in common lodging premises. Then the employees, as the community develops, buy houses. It has happened in the past that these mushroom towns then become deserted because the conditions which more or less developed them disappear. As a result, these employees have difficulty re-selling their houses, which represent at times almost their entire life savings, because there is no market for their houses. Therefore we have been forced to make some kind of arrangement with our employees under which the houses would be valued by independent experts and the percentage of occupation would be deducted in each case from the value of the house. Then in order to transfer these employees back to another area we have had to help them in the process, and this was the purpose of this amendment. We have done it in the past, relying on clause 26 of the original act of incorporation which reads:

The said Company shall have power to purchase, lease or otherwise acquire and hold all such real estate as may, from time to time, be deemed requisite for the purposes of the Company, and also to sell, lease or otherwise dispose of, and to mortgage, pledge or incur, such real estate or any part or parts thereof from time to time, in such manner and on such terms as they may deem fit.

This was the clause on which we relied to do these things to help the employees. There was some concern that perhaps this particular clause was not strong enough to support the kind of plan that we had devised over the years to help employees who were in an area which had been booming at one point but which had become—I would not call it a ghost town necessarily—not as active as before. Because this created quite a burden on employees a plan was devised, and section 26 was used.

**Mr. Vincent:** There were very few cases involved.

**Mr. Lewis:** Is Mr. de Grandpré persuaded that he does not have the power if he needs it?



**Mr. de Grandpré:** I am not persuaded that I have the power, let me put it that way, under section 26 because it says "the Company purposes". Is it a purpose of the Company to help employees before transferring him?

Old clause 13, new clause 12, agreed to.

On clause 14, new clause 13,—*Prospectus*

**Mr. de Grandpré:** Gentlemen, I think that old clause 14 is no longer necessary and we would like to drop it.

When the bill was prepared the regulations of the Ontario Securities Commission had not been enacted and there was something that we wanted to cure. With the new Ontario Securities Commission regulations this clause 14 is unnecessary.

**Mr. Lewis:** Mr. Chairman, as I do not know anything about this field would you permit Mr. de Grandpré to elaborate a little on what difference the Ontario Securities Commission regulations have made so as to make this section unnecessary? I am not questioning it, but I would like to understand it.

• 1710

**Mr. de Grandpré:** I will try to give you in capsule form what the problem is. Mr. Wallace, our Vice-President of Finance, is here and he will correct me if I go astray.

The regulations now provide that we have to disclose all material contracts involving telephone companies notwithstanding the amount at stake and all contracts not related to purchase or acquisitions of telephone companies provided they exceed \$2.5 million. These are the regulations and we have to abide by them. Therefore the kind of procedure that was contemplated under clause 14 is impossible to use any more and that is why there is no useful purpose in clause 14.

**Mr. Jamieson:** You say these are the new Ontario Securities Commission regulations?

**Mr. de Grandpré:** That is right, Mr. Jamieson, under the new Securities Act.

**Mr. Groos:** I move that old clause 14 be deleted.

**Mr. Cantelon:** I second the motion.

Motion agreed to.

Old clauses 15 and 16, new clauses 13 and 14, agreed to.

**The Chairman:** We will revert to old clause 8, new clause 7. Mr. Lewis.

**Mr. Lewis:** Mr. Chairman, I now have the wording of my proviso. Perhaps the Chairman will read it. I have no pride of authorship. If this can be put in better English, I have no objection. I am interested in the principle.

**The Chairman:** It has been moved by Mr. Lewis and seconded by Mr. Schreyer that new clause 7 be amended to read as follows: "For the purpose of carrying out its corporate powers...provided that such other company,..."—and I guess it would be "companies"...

**Mr. Lewis:** It does not matter.

**The Chairman:** "...not being a subsidiary of the Company on the date on which this act comes into force, does not manufacture products for sale to the Company or to other customers". I guess this should read, "...company, not being a subsidiary of The Bell Telephone Company of Canada."

**Mr. de Grandpré:** We have used the word "Company" throughout.

**Mr. Lewis:** They have used the words "the Company" throughout. That is how it appears in there.

**Mr. Groos:** Mr. Chairman, would you go over that again a little more slowly? What comes after "force"?

**The Chairman:** "...provided that such other company, not being a subsidiary of the Company on the date on which this act comes into force, does not manufacture products for sale to the Company or to other customers." Mr. de Grandpré?

**Mr. de Grandpré:** That excludes Northern Electric.

**The Chairman:** Yes; it certainly does.

**Mr. Lewis:** It allows you to invest as much as you like in Northern Electric, but you do not...

**Mr. de Grandpré:** First of all, I want to make sure that I have the words. "Provided that such other company, not being a subsidiary of the Company on the date on which this act comes into force, does not manufacture products for sale to the Company or to other customers."

**Mr. Jamieson:** In other words, you cannot buy up one of your own suppliers. Is that right?



**Mr. Vincent:** What you mean by this, Mr. Lewis, is that if an American subsidiary, a manufacturer of telephone equipment, wished to sell their company to a Canadian we could not buy it.

• 1715

**Mr. Lewis:** Mr. Vincent, what I mean is exactly what Mr. de Grandpré said he intended, and I just want to be very sure that what you say you intend is in the act. Mr. de Grandpré said that under this section, as you agreed it should be amended, Bell intends to do no more than to acquire interest in research and development firms; that you were not interested in extending beyond that. When Mr. de Grandpré was asked what he meant by research and development he said that "research" meant sort of pure research, and that "development" meant the design and manufacture of prototypes and so on, but not the manufacturing of products for the market. That is all I mean.

If you did not mean that then that creates an entirely different situation both before this Committee and in Parliament; but if you did mean it then I suggest to you that my amendment is perfectly in order.

**Mr. Rock:** Mr. Lewis, I understood you to mean products other than those used by Bell Telephone, such as refrigerators and typewriters and so on.

**Mr. Lewis:** I do not know what you understood me to mean. I am certain Mr. de Grandpré knew what I meant.

**Mr. Groos:** Mr. de Grandpré will know much better than I, but are there any companies that do nothing but pure research and development?

**Mr. Vincent:** Not in this country, sir. There is none in Canada.

**Mr. Groos:** In other words, if you wish to have the advantage of research and development you have to buy a company that does them in addition to its manufacturing?

**Mr. de Grandpré:** Or we could set one up.

**Mr. Lewis:** Or, Mr. Chairman, if I may, you could buy the company and stop the manufacturing operations. There is nothing to prevent your doing that.

**Mr. Groos:** But according to this wording you cannot even acquire...

**Mr. Lewis:** It can be arranged with the customer. I am sure Mr. de Grandpré and his assistants are ingenious enough to be able to arrange the kind of thing that would bring them within the clauses. The manufacturing end can be wiped out and they have the research and development.

**Mr. Groos:** I understand your feeling exactly, and I am in some sympathy with it, but I just wonder how practical it is. Development is always involved with manufacturing. When you separate it completely from manufacturing what have you left?

**Mr. Lewis:** Then, Mr. Groos, you might as well have left the original words in there, and we are being taken for something or other.

**Mr. Groos:** Perhaps we had better re-examine it to see whether we cannot find some wording that is acceptable.

**Mr. Lessard:** Mr. Lewis, what is the purpose of your amendment?

**Mr. Lewis:** It is very simple. Some of us are of the opinion that the extension of the powers of Bell to have manufacturing firms, even in its own field, has gone far enough, and we are not prepared to agree to extending to Bell the power to buy up every electronic equipment organization in Canada if it so desires.

If the research and development limitation does not mean what some of us innocently assumed it might mean—and I asked the question because I had a suspicion it might not—then the original words are there and Bell can go on and buy up every single firm in the field related to Bell's work in Canada. This would give Bell not a monopoly merely in the telephone service but a complete monopoly in the manufacture and supply of telephone and related equipment.

We are not prepared to support that either in this Committee or on the floor of Parliament.

**The Chairman:** I would point out to the Committee that the Economic Council of Canada has had referred to it terms of reference relative to the economics of mergers and acquisitions, and so on, apart from enquiry by our Combines Branch. I know what you want to do, Mr. Lewis, but perhaps it might be premature, having in mind those reports from the Economic Council of Canada and the Combines Branch.

• 1720

**Mr. Lewis:** If, when the Bill is before us, Bell wants to adjourn it and bring it in two years from now that is quite all right with me.

**Mr. Allmand:** Mr. Chairman, that was my point. Mr. Lewis has put forward the possibility that Bell is going to acquire all types of equipment companies, and acquire a much larger monopoly than it presently has. Is it not the purpose of our combines legislation to prohibit that sort of thing if it unduly affects a situation. I think by putting forward ad hoc amendments like this, all we might do is unduly restrict Bell, which on the whole, has not done this sort of thing over its long history. I would be against this amendment, unless it was worded in a much more suitable way. I think that we do nothing to help the situation by putting forward amendments like this.

**Mr. de Grandpré:** May I make one comment, and I am just talking from the top of my head in view of this proposed amendment of Mr. Lewis.

I think that if we were to accept this amendment, we would not be in a position to become partners, only for the research aspect, with a company that is also manufacturing electronic equipment. I will give you one example. I do not want you to read into this example, that we have intentions to do this.

Let us suppose it is in the interest of Canada to have Northern and RCA Victor together doing some research, Northern and Bell, a complex, doing some research jointly with RCA Victor, or General Electric, or Hughes, or any other large electronic manufacturer. I think with this amendment, we would be precluded from participating in a joint research operation with RCA in their labs, because RCA is a manufacturer of products which it sells to customers.

**Mr. Lewis:** Mr. Chairman, let me put it very simply to the members of the Committee, and to the officers of Bell. I did not foresee the example you gave, I am not suggesting that. But I did foresee the likelihood that my wording would create difficulty; that is why I said I had no pride of authorship. I did not say it merely to make a comment. I would agree, Mr. Chairman, if the other members of the Committee did not shoot me for it, that we have another meeting of the Committee and Mr. de Grandpré try to come forward with an amendment. I am trying to

word this so that it does not sound as it otherwise might sound—I am picking my words very carefully. If it is in the interest of Canada and of Bell to have this bill passed by Parliament—because this Committee's work is not the end—then it may be necessary, as well as desirable, that some solution be found to the problem which my suggested amendment raises.

**Mr. Allmand:** Do you not think the combines act prohibits it, Mr. Lewis?

**Mr. Lewis:** No, it does not. As a matter of fact, I do not want to get into a legal argument, but I think Mr. Allmand is wrong in his interpretation of the Combines Investigation Act. I do not think there is anything in the Combines Investigation Act that prohibits the acquisition of another company.

**Mr. Allmand:** Unless it unduly affects...

**Mr. Lewis:** No.

**The Chairman:** Well, let us not get into that.

**Mr. Lewis:** There are many other factors.

**Mr. Schreyer:** Mr. Chairman, if, as Mr. de Grandpré said just a few minutes ago, it is in the country's interest that Bell not be prevented from acquiring an interest in a company that is engaged even in large part in research and development and also in manufacture, or if you mean to say it is impossible to acquire an interest in a company that is breaking new trails in research and development of electronics, and also does not engage in manufacturing, this is simply impossible. If it is in the national interest, that you do acquire interest in such companies, why not say so in the amendment. You see, what I resent, is that we were given to understand, I certainly was, that the primary intention here was to give Bell the power to acquire an interest in a company engaged in research and development. There is no mention made of going beyond that but the moment an amendment is offered to give wording to the intention, it is not acceptable.

• 1725

**Mr. de Grandpré:** You are reading too much in my objections. I have said that if we acquire an interest in RCA Victor, for instance, the RCA research and development, it could very well be that the manufacturing part of this will still be included, and we would still only acquire a share in the



research and development department of RCA, and we would not be in a position to do this, because RCA is involved in manufacturing.

You will appreciate I think, Mr. Lewis, that this is a serious handicap.

**Mr. Lewis:** I appreciate your point and I want you to appreciate that I am not seeking in any way to restrict Bell's or Northern's capacity to expand its research and developmental work by acquiring interests in other companies for that purpose. I invite Mr. de Grandpré to draft something that will carry out the intention of his company, which, for this purpose, I accept without any reservations, and to come up with some other wording and you will have no difficulty.

**Mr. de Grandpré:** I would not like you, Mr. Lewis, or Mr. Schreyer, or any member of this Committee, to feel that I am trying to raise objections because we want to invest in something else; this is not the purpose. However, we want to preserve entirely though, the power to invest in an R. and D. operation. This is the issue that we and the Committee are trying to resolve. This is why I feel you have to look at the words to see whether they are not going to prevent the very thing that we are trying to achieve.

**Mr. Lewis:** You are trying to find the appropriate words.

**Mr. Jamieson:** The answer was given a moment ago, Mr. de Grandpré, that there were no companies in Canada engaged exclusively in research and development. Are there many companies that have a primary interest in research and development, or, in fact—I am thinking about the prospects open to you—are these companies primarily manufacturing companies which have a relatively small portion devoted to research and development, or are they prominently or primarily research and development with a small portion of manufacturing?

**Mr. de Grandpré:** I think that this is true, and if you want to have an order of magnitude, Mr. Jamieson, the total sales of Northern Electric last year were around \$400 million, and the R. and D. money that was spent, totalled about \$30 to \$35 million.

**Mr. Jamieson:** That was out of \$400 million.

**Mr. de Grandpré:** We are not talking about the same figures, but it is just an order of magnitude. For \$400 million worth of sales,

we spent let us say, between \$30 and \$35 million on research and development, so you can see that although Northern has, what we consider, quite an advanced lab it still represents only 10 per cent of total sales.

**Mr. Jamieson:** Well, my point is that given the necessary authorization you are seeking under this bill, whether it be in the amended form or in the original form, the fact is that you are going to have to buy a company which has very substantial manufacturing activity. In other words, there just is no other company to buy. Granted, you could set up some of your own...

**Mr. de Grandpré:** Unless we set one up. As I indicated before, when we talked about the intention, the intention was to divorce the R. and D. department of Northern, or weigh the advantages and disadvantages of separating the R. and D. department of Northern and setting it up as a separate corporation. If it is done, then this is a new avenue that we have never explored before and we wanted to remove any possible doubt that we have such a power so that we would not be under another kind of a cloud.

• 1730

**Mr. Jamieson:** I do not think this answers my question. What I am getting at is that given the authority you then start looking about to see what you would be interested in buying. What I am suggesting is that from the answers given, the only thing you could buy—that is, of what is now in existence—would have to be primarily a manufacturing company, which has a fairly strong research and development department, because, as I say—you have answered yourself—there is no company primarily engaged in research and development here. It would have to go the way that Mr. Lewis objects to, which I think is his point.

**The Chairman:** Gentlemen, perhaps we can adjourn for ten minutes to allow the officers of the company to discuss this matter. We will reconvene at 5:40 p.m.

**Mr. Rock:** Mr. Chairman, first of all, do all the members here agree that they should be restricted?

**The Chairman:** Mr. Rock, we are not discussing that.

**Mr. Rock:** Mr. Chairman, first of all, he filed an amendment. Just because the amend-



ment was brought in does it mean that every member here agrees they should be so restricted?

**The Chairman:** No, Mr. Rock.

**Mr. Rock:** I do not feel so, and I do not see why ...

**The Chairman:** Mr. Rock, with all due respect, I am sorry to say that you are missing the point. I am calling an adjournment for ten minutes to allow the officers of the company to consider this clause. We will reconvene at 5:40 p.m.

**Some hon. Members:** Agreed.

**The Chairman:** I have discussed it with them and a ten minute adjournment is requested.

(adjourned)

**The Chairman:** We will now resume.

• 1750

**Mr. de Grandpré:** Mr. Chairman, we have examined the words that have been submitted by Mr. Lewis and which are now in the form of a motion before this Committee, if I understand correctly.

There is no doubt that the words of it restrict the broader words that we used previously.

On the other hand, we have made it quite clear that our intention was to be in an R. and D. operation. Therefore, notwithstanding the restrictions, it does not alter the intentions or the objectives of the company. I do not know exactly how the wording should be inserted. Perhaps it could be done by adding, after the comma following the words "with the same", the words "...provided that such other company, not being a subsidiary..." and so on.

**The Chairman:** Do you have the wording?

**Mr. de Grandpré:** Yes; but I want to make sure that these are the words in the motion, Mr. Chairman. After the words "the same" in what I understand is now clause 7, the following words will be added: "...provided that such other company, not being a subsidiary of the Company on the date on which this act comes into force, does not manufacture products for sale to the Company or to other customers".

**Mr. Rock:** What was that last part of the sentence?

**The Chairman:** "...provided that such other company, not being a subsidiary..."

**Mr. Lewis:** It is the same wording that I gave to the Clerk.

**Mr. de Grandpré:** We have the same words.

**The Chairman:** "...provided that such other company, not being a subsidiary of the Company on the date on which this act comes into force, does not manufacture products for sale to the Company or to other customers."

You are prepared to accept the motion as it is now put by...

**Mr. Rock:** Mr. Chairman, this means that they can neither buy, nor buy into, a company that has ever sold them any products.

**Mr. de Grandpré:** Through the device of an R. and D. company.

**Mr. Rock:** No, no. You have not got the right to buy into any company that now sells you products.

**Mr. Lewis:** Except for Northern Electric.

**Mr. Rock:** Yes.

**Mr. Lewis:** They have the right. Northern Electric...

**Mr. Rock:** Yes; but, for example, if they sought to buy into RCA and they were buying things from RCA they could not do it.

I cannot see how we can so restrict important companies such as Bell and Northern.

**An hon. Member:** Well, they want to do it. It is their bill. If they are happy with it...

**Mr. Rock:** But they are being forced into this.

**The Chairman:** Order, please. To satisfy some of the members perhaps Mr. de Grandpré could explain what device the company would use in the situation referred to where there is combined R. and D. and manufacture?

**Mr. de Grandpré:** Were we ever confronted by this situation, Mr. Chairman, the way to do it would be to tell a research and development plus manufacturing company such as RCA, or those with whom we wanted to become partners, that the charter of the company would not permit our investing, but that they or we would have to set up a research and development company out of their research and development department so that

we could become partners with them in the R. and D. section.

**Mr. Lewis:** It is very simple. I suggested that to the Chairman while you were out.

**Mr. de Grandpré:** Great minds meet.

**The Chairman:** I want to say, though, that I agreed with you.

**Mr. Rock:** That is what I like about lawyers. What they cannot do legally they will do illegally and indirectly!

**The Chairman:** You are smartening up!

The motion for the amendment of new clause 7 is as follows:

For the purpose of carrying out its corporate powers the Company is empowered to purchase or otherwise acquire, and to hold shares, bonds, debentures or other securities in any other company engaged in research and development work in areas of inquiry that relate to the objects of the Company and to sell or otherwise deal with the same, provided that such other company, not being a subsidiary of the Company on the date on which this act comes into force, does not manufacture products for sale to the Company or to other customers."

All those in favour?

**Mr. Rock:** Before we take the vote, may I ask if the portion following the comma is now an amendment, proposed and seconded by two members?

**The Chairman:** Yes.

**Mr. Rock:** Therefore, we are voting only on the amendment. We can vote against the amendment if we wish?

• 1755

**The Chairman:** That is right. I am going to call the vote on the amendment.

**Mr. Rock:** On the amendment; so that we can vote later on. . .

**The Chairman:** That is right.

Shall new clause 7 as amended carry?

All those in favour? Those opposed?

Clause 7 as amended carried. Shall the preamble carry? Preamble carried. Shall the title carry? Title carried. Shall the bill as amended carry? Bill as amended carried. Shall I report the bill as amended? Bill as amended to be reported.

**The Chairman:** Before we adjourn I wish to congratulate the officers of the Bell Telephone Company who have laboured through the birth of this Bill and to express, on behalf of the members of the Committee, our thanks to them.

The amendments have been brought forward and discussed. We wish you well in the House and hope that you get this Bill through before prorogation this session. Perhaps the likelihood of that has become brighter today.

I also wish to inform members that Mr. Russ Honey, the sponsor of this Bill, is with us. He has been in hospital a couple of times, probably because of our deliberations on this Bill! We wish him well in the House, too.

There will be no meeting this evening. The next meeting of this Committee will be at 10 a.m. next Tuesday, when we will discuss the Atlantic Provinces transportation study.



## APPENDIX A-11

## THE THORNE GROUP LIMITED

Management Consultants

101 Richmond St., W.,  
Toronto 1, Ontario.  
Tel.: 416 363-2127

1st December, 1967.

The Clerk to the Committee for Bill C-104,  
"An Act Respecting The Bell Telephone Com-  
pany of Canada",  
House of Commons,  
Ottawa,  
ONTARIO.

Sir:

Re: Bill C-104

As members of the Association of Data Processing Service Organizations Inc., we, in common with other independent Canadian data processing service bureaus, many of whom also are members of ADAPSO, are very concerned at the possible danger to the viability of the independent operator if The Bell Telephone Company of Canada is permitted to enter the data processing service bureau field.

The Bell Telephone Company, being one of Canada's major common communications carriers, is a supplier of data transmission facilities, inter alia, to independent service centres. If it is allowed to compete with them by offering the same data processing services to business and industry, this could become a precedent of dangerous impact. It could even result in the independent service centre owner and operator being forced out of business unless The Bell Telephone Company is so tightly regulated that its pricing and terms of sale are such that they will not have the effect of injuring competition.

We understand that it is the intention of The Bell Telephone Company to establish a major computer utility coupled to its own data transmission network, first tying up the Province of Quebec, next linking it to Ottawa, then covering the Maritime Provinces followed by Ontario and, eventually, the Prairie Provinces and west to the coast, offering a time-shared data processing service facility to business and industry.

It has now been announced that The Bell Telephone Company is building a \$10 million data centre in Don Mills, Ontario.

Similar competitive proposals by the common carriers in the United States have resulted in a special Federal Communications Commission Inquiry into the Interdependence of Computer-Communication Carrier Industries. ADAPSO is playing an active role in this FCC inquiry, and its Board of Directors is equally concerned at the potential danger to Canadian data centre operators if The Bell Telephone Company of Canada invades their specific field of business activities and is thereby allowed to compete with its own customers, perhaps using unfair methods in doing so.

We, therefore, respectfully submit for the consideration of the House of Commons Transport and Communications Committee, in their deliberations on Bill C-104, that:

1. Common communications carriers and organizations affiliated with them should not be permitted to market data processing and other electronic services commercially unless they first affirmatively demonstrate to the Commons Transport and Communications Committee, or the Minister of Transport, that their prices, terms of sale and methods of operation will not have the effect of injuring competition. With this exception, no present public benefit would be gained by the regulation of data processing and other electronic information services, whether time-shared or not.

2. Service centres should be permitted to switch messages where such activity is incidental to a data processing service involved.

3. Users should be permitted to use non-carrier terminal or concentrator equipment which meets appropriate standards on the dial-up network as well as on leased lines, without being required to utilize common carrier modulation and de-modulation equipment.

4. A need exists for a digital data transmission network providing data-conditioned line quality at low cost.



5. Additional tariff offerings should be presented by the common carriers, which provide a wider range of data transmission speeds. Present offerings restrict transmission to 15 characters, 100 to 300 character, and the over 5100 character per second range. Additional increments are required. A wider range of choices would provide users with the options to select the speed (and price) which match the application requirement. Offering a wider range of transmission speeds would serve to stimulate further terminal equipment development usable at such speeds.

6. The Commons Transport and Communications Committee or the Board of Transport Commissioners should establish uniform equipment and line standards and charges, and recommend their adoption by the common communications carriers in Canada in an effort to ensure the availability of all equipment or line offerings in all divisions of the various communications companies at the same

time and at the same price, and to eliminate possible unfair disparities which might exist in certain Provinces as compared with identical facilities under inter-Provincial tariffs.

7. Standard and reasonable charges for the cancellation of channel services should be established. On offerings where a cancellation charge is applicable, the amount of penalty should be clearly defined.

8. Data transmission line charges should be computed on the basis of time alone, without regard to distance, thereby eliminating the present artificial geographical barriers which impede progress.

Respectfully submitted,  
B. Anthony Lawless,  
For THE THORNE GROUP  
LTD. and Chairman, Operating  
Ratios Committee, Association of Data Processing  
Service Organizations Inc.

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HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

LIBRARY

MAY 10 1968

UNIVERSITY OF TORONTO

STANDING COMMITTEE

ON

# TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. JOSEPH MACALUSO

## MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

TUESDAY, FEBRUARY 13, 1968

TUESDAY, FEBRUARY 20, 1968

THURSDAY, MARCH 7, 1968

THURSDAY, MARCH 14, 1968

### Respecting

Atlantic Provinces' Transportation matters including the submissions  
received thereon by the Committee.

### WITNESSES:

*From the Department of Transport:* Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director of Transportation Policy and Research; Mr. E. L. Hewson, Director-elect, Transportation Policy and Research; Mr. H. B. Neilly, Chief Economist. *From the Canadian Transport Commission:* Mr. Joseph Hanley, Director of Traffic. *From the Atlantic Development Board:* Mr. James Harvey, Economist.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1968

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Allmand,	Mr. Groos,	Mr. Nowlan,
Mr. Bell ( <i>Saint John-</i>	Mr. Horner ( <i>Acadia</i> ),	Mr. Olson,
<i>Albert</i> ),	Mr. Howe ( <i>Wellington-</i>	Mr. Pascoe,
Mr. Byrne,	<i>Huron</i> ),	Mrs. Rideout,
Mr. Crossman,	Mr. Jamieson,	Mr. Rock,
Mr. Deachman,	Mr. Johnston,	Mr. Saltsman,
Mr. Fawcett,	Mr. Keays,	Mr. Sherman,
Mr. Forrestall,	Mr. McWilliam,	Mr. Stafford—(24).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*



## ORDERS OF REFERENCE

TUESDAY, January 30, 1968.

*Ordered*,—That the Standing Committee on Transport and Communications be empowered to consider and report upon all aspects of transportation as they relate to the Atlantic Provinces, taking account of the conclusions and recommendations of the Atlantic Provinces Transportation Study, January, 1967, Volumes 1 to 12, prepared by the Economist Intelligence Unit Limited, and the Report of the Royal Commission on Transportation, 1961, Volumes 1 and 2, and recommend what measures should be initiated in order that the national transportation policy may be as fully implemented as possible in the Atlantic Provinces.

That the said Committee shall examine, in particular, the effectiveness of the Maritime Freight Rates Act with power to study and make recommendations concerning:

- (a) changes or alterations which may now be desirable in the Maritime Freight Rates Act; and
- (b) alternative methods of assisting transportation in the Atlantic Provinces either in addition to the Maritime Freight Rates Act or in substitution therefor in whole or in part with the purpose that maximum benefits be obtained by the Atlantic Provinces from the expenditure being made.

That for the purposes of this inquiry, the said Committee shall be empowered to adjourn from place to place within Canada; that the Clerk and necessary supporting staff be authorized to accompany said Committee, and that the Committee be authorized to engage the services of counsel, accountants, etc.

WEDNESDAY, January 31, 1968.

*Ordered*,—That the names of Messrs. Lewis and Schreyer be substituted for those of Messrs. Saltsman and Orlikow on the Standing Committee on Transport and Communications.

FRIDAY, February 2, 1968.

*Ordered*,—That the names of Messrs. Olson and Guay be substituted for those of Messrs. Émard and Reid on the Standing Committee on Transport and Communications.

MONDAY, February 5, 1968.

*Ordered*,—That the names of Messrs. Keays and McQuaid be substituted for those of Messrs. Southam and Cantelon on the Standing Committee on Transport and Communications.

THURSDAY, February 8, 1968.

*Ordered*,—That the names of Messrs. Saltsman and Fawcett be substituted for those of Messrs. Lewis and Schreyer on the Standing Committee on Transport and Communications.

TUESDAY, February 13, 1968.

*Ordered*,—That the names of Messrs. Johnston and Caron be substituted for those of Messrs. Leboe and Guay on the Standing Committee on Transport and Communications.

WEDNESDAY, February 14, 1968.

*Ordered*,—That the name of Mr. Forrestall be substituted for that of Mr. Sherman on the Standing Committee on Transport and Communications.

THURSDAY, February 15, 1968.

*Ordered*,—That the name of Mr. Crossman be substituted for that of Mr. Caron on the Standing Committee on Transport and Communications.

THURSDAY, February 29, 1968.

*Ordered*,—That the name of Mr. Sherman be substituted for that of Mr. McQuaid on the Standing Committee on Transport and Communications.

FRIDAY, March 15, 1968.

*Ordered*,—That, pursuant to an Order of the House, dated Tuesday, January 30, 1968, the Standing Committee on Transport and Communications be permitted to adjourn from place to place during adjournments of the House.

*Attest:*

ALISTAIR FRASER,  
*The Clerk of the House of Commons.*

## REPORT TO THE HOUSE

WEDNESDAY, March 13, 1968.

The Standing Committee on Transport and Communications has the honour to present its

### TWELFTH REPORT

Pursuant to an order of the House dated Tuesday, January 30, 1968, your Committee seeks the permission of the House to adjourn from place to place during adjournments of the House.

Respectfully submitted,

H. PIT LESSARD,  
*Vice-Chairman.*

(Concurred in Friday March 15, 1968)





## MINUTES OF PROCEEDINGS

TUESDAY, February 13, 1968.

(20)

### (HOUSE OF COMMONS)

The Standing Committee on Transport and Communications met this day *in camera* at 10.20 a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Allmand, Bell (*Saint John-Albert*), Byrne, Deachman, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Keays, Macaluso, McQuaid, McWilliam, Nowlan, Rock, Sherman, Stafford—(16).

*Also present:* Mr. Forrestall, M.P.

*In attendance:* *From the Department of Transport:* Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director of Transportation Policy and Research; Mr. E. L. Hewson, Director-elect, Transportation Policy and Research; Mr. H. B. Neilly, Chief Economist. *From the Canadian Transport Commission:* Mr. Joseph Hanley, Director of Traffic. *From the Atlantic Development Board:* Mr. James Harvey, Economist.

The Committee met to discuss the forthcoming tour by the Transport and Communications Committee to the Atlantic Provinces.

On motion of Mr. Byrne, seconded by Mr. Fawcett,

*Resolved,*—That the Clerk of the Committee be authorized to procure, for Committee use, copies of the Railway Act, the Duncan Royal Commission on Maritime Claims, the Turgeon Report—Royal Commission on Transportation Freight Rate Reduction Act and other reference books deemed necessary.

On motion of Mr. Byrne, seconded by Mr. Fawcett,

*Resolved,*—That the following supporting staff accompany the Committee:

Mr. R. V. Virr	}	Committee Clerks
Mr. Edouard Thomas		
Mrs. P. Sutcliffe		Stenographer
Miss P. Cyr		Interpreter
Mrs. B. Martin	}	Committee Reporting Service
Mr. W. Publow		
Mr. F. Chapman		

On motion of Mr. Byrne, seconded by Mr. Fawcett,

*Resolved,*—That the Clerk be authorized to provide transportation to the Maritime Provinces for those members whose duties preclude their leaving Ottawa with the Committee.

The Chairman informed the Committee that details of the itinerary were completed and copies were distributed to members. He also informed the

Members of the application of the \$15.00 per diem Member's allowance while travelling.

On motion of Mr. Byrne, seconded by Mr. Fawcett,

*Resolved*,—That the Committee pay the transportation and accommodation expenses and reasonable living expenses of the advisory staff, Mr. Joseph Hanley and Mr. James Harvey, who will be accompanying the Committee.

Mr. Baldwin introduced the attending officials and then gave a brief summary of the Maritime Freight Rates Act, the Turgeon and McPherson Reports and other documents and statutes relating to the reference under study.

Mr. Cope supplemented the summary in relation to Railway freight rates and the Freight Rate Reduction Act.

The attending departmental officials responded to questions of the Members.

At 12.00 o'clock noon, the Committee adjourned to the call of the Chair.

TUESDAY, February 20, 1968.

(21)

(CHARLOTTETOWN)

The Standing Committee on Transport and Communications met this date at 9.35 a.m. in Charlottetown, P.E.I. *In Camera*, the Chairman, Mr. Macaluso, presiding.

*Members present*: Mrs. Rideout and Messrs. Bell (*Saint John-Albert*), Byrne, Crossman, Deachman, Fawcett, Forrestall, Groos, Horner (*Acadia*), Howe (*Wellington-Huron*), Keays, Lessard, Macaluso, McWilliam, Nowlan, Pascoe, Rock, Saltsman, Stafford—(19).

*Also present*: Mr. Macquarrie, M.P. and Mr. McLean, M.P.

The Committee considered the events of Monday, February 19, 1968 in the House of Commons in Ottawa and the subsequent effect on the tour of the Atlantic Provinces by the Committee.

It was moved by Mrs. Rideout, seconded by Mr. Crossman,

That the Clerk of the Committee be empowered to procure the necessary air charter service for the immediate return of the Committee to the House of Commons, Ottawa.

At 9.40 a.m., the Committee adjourned to the call of the Chair.



HOUSE OF COMMONS,  
THURSDAY, March 7, 1968.  
(22)

The Standing Committee on Transport and Communications met this day at 10.05 a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Bell (*Saint John-Albert*), Byrne, Crossman, Deachman, Fawcett, Forrestall, Groos, Howe (*Wellington-Huron*), Jamieson, Keays, Lessard, Macaluso, McWilliam, Nowlan, Olson, Pascoe, Saltzman, Stafford—(19).

Pursuant to its Order of Reference relating to the transportation problems in the Atlantic Provinces, the Committee discussed the timing of a return trip to the Maritimes. It was generally agreed that the trip should be made in two visits with approximately one week interval between each visit. It was further agreed that the steering Committee would select appropriate dates and report back to the main Committee.

On motion of Mr. Bell (*Saint John-Albert*), seconded by Mr. Jamieson,

*Resolved*,—That the Committee seek permission to adjourn from place to place during adjournments of the House.

The Chairman tabled a letter dated February 16, 1968 and a brief statement received from Mr. R. T. Vaughan, Vice-President of Canadian National Railways concerning the prospective hearings in the Maritime Provinces.

On motion of Mr. Lessard, seconded by Mr. Crossman,

*Resolved*,—That the following documents concerning the prospective Maritime trip be printed as appendices to this day's Minutes of Proceedings and Evidence. (*See appendices A-12 to A-90*)

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At 10.30 a.m., the Committee adjourned to the call of the Chair.

HOUSE OF COMMONS,  
THURSDAY, March 14, 1968.  
(23)

The Standing Committee on Transport and Communications met this day at 4.15 p.m., *in camera*, the Chairman Mr. Macaluso presiding.

*Members present:* Mrs. Rideout and Messrs. Allmand, Bell (*Saint John-Albert*), Crossman, Deachman, Fawcett, Forrestall, Groos, Jamieson, Keays, Lessard, Macaluso, McWilliam, Nowlan, Olson, Pascoe, Rock, Saltsman—(18).

The Clerk distributed copies of the proposed itinerary for the tour of the Maritime Provinces. A discussion followed on the suitability of the proposed dates.

It was agreed that the Chairman would discuss the date with the House Leader and if an accord was reached the Chairman would issue a press release to the general public.

At 4.30 p.m., the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*





## APPENDIX A-12

## Canadian National Railways

Montreal

16 February 1968

R. T. Vaughan  
Vice-President  
Secretary of the Company

Dear Mr. Macaluso:

This refers to the visit to the Atlantic Provinces by the Standing Committee to conduct an examination of transportation facilities and hear various representations. Canadian National Railways recognizes the significance and importance of the task of the Committee. The company will co-operate in every way possible in the work of the Committee and hopes that constructive proposals will emerge which would contribute to the growth of the economy of the Atlantic Provinces.

Throughout the public hearings of the Committee, Canadian National will be represented by Mr. J. W. G. Macdougall, Q.C., General Counsel, Montreal, Mr. J. L. Brean, Regional Counsel, Atlantic Region Headquarters at Moncton, and myself, and other officers as may be required. I should say that Mr. Macdougall, who has appeared before your Committee on other occasions, has recently been appointed Vice-President, Atlantic Region, effective May 1.

I am attaching a short statement which I would appreciate being filed with the Committee at its opening hearing. It is self-explanatory, and expresses the thought that Canadian National is interested in the hearings and will examine all constructive proposals which may affect its operations.

Yours sincerely,  
R. T. Vaughan

Joseph Macaluso, Esq., M.P.  
Chairman  
Standing Committee on  
Transport and Communications  
House of Commons  
Ottawa, Canada

## CANADIAN NATIONAL RAILWAYS

STATEMENT RE HEARINGS OF  
HOUSE OF COMMONS COMMITTEE  
ON TRANSPORT AND  
COMMUNICATIONS IN THE  
ATLANTIC PROVINCES

Canadian National welcomes the interest of the House of Commons Committee on Transport and Communications in undertaking an intensive on-the-ground look at all Atlantic Provinces transportation facilities. We recognize that the task of the Committee is a large and important one and wish to assure the Committee, and all in the Atlantic area who are interested in its work, of our earnest desire to be helpful and co-operative in every way possible.

As the Atlantic area's largest single transportation agency in terms of services and facilities, Canadian National will be represented at all public hearings of the Committee during its tour.

As the Committee is well aware, Canadian National has long and extensive experience in providing transportation service by rail in this part of Canada. The Company has operated ferry services for the federal government's account for many years and, in addition to the rail and marine services, the Company has added highway services throughout most of the Atlantic area. We expect, of course, to hear many comments on the adequacy and suitability of these services and will consider carefully all constructive suggestions which would serve to bring about improvements. We do not propose to comment on such suggestions at the regional hearings, partly because your time at each point is limited and you wish to hear all local submissions; and partly because we wish to give adequate study and consideration to any worthwhile proposal which may be put forth. It is our intention, therefore, to prepare a

statement which would be presented to the Committee at the hearing in Ottawa following the conclusion of the regional hearings. We hope that this procedure would meet with the Committee's wishes.

Canadian National is vitally interested in the health and growth of the economy of the Atlantic Provinces, and we are most anxious to contribute towards the development and implementation of any proposals to that end.



## APPENDIX A-13

## BRIEF

BY

The Government of Newfoundland  
and Labrador.

*Topic;*

"The Urgent Need for an up-to-standard all-weather Trunk Roads System, in the Province of Newfoundland and Labrador".

*Submitted To:*

The Standing Committee on Transport and Communications, House of Commons, Ottawa, for consideration during their visit to Newfoundland on February 23, 1968.

St. John's

February 13, 1968

*General Background:*

The Government of Newfoundland and Labrador welcome this opportunity to appear before the Standing Committee on Transport and Communications. We are pleased that the Committee will have an opportunity to obtain, through personal experience, some insight into the very real and very different transportation problems that exist in our Province.

The Island of Newfoundland is largely dependent upon its sea and air links to mainland Canada, and to Labrador with its Iron Ore mines, and the great new hydro electric project at Churchill Falls. The entry of Newfoundland into Confederation in 1949 increased the importance of these links to mainland Canada, and made our dependence on these lines of communication more complete than ever before.

By the Terms of Union, negotiated between Canada and Newfoundland, provision was made for the taking over by Canada of the Newfoundland Railway, including steamships and other marine services. Subsequently, by statutory enactment of the Parliament of Canada, Canadian National Railways were entrusted with the management and operation of the Newfoundland Railway, the coastal

service, and the freight and passenger services between North Sydney and Port-aux-Basques. These same Terms provided certain special considerations which guaranteed Newfoundland the benefits of legislation providing for "special rates on traffic moving within, into, or out of, the Maritime region". The Maritime Freight Rates Act is an example of such legislation. The importance to Newfoundland of these particular provisions was reinforced in 1951 when the C.N.R. was ordered by the Board of Transport Commissioners for Canada to cancel the tariffs then in effect, and to substitute therefor tariffs and tolls based on the rate structure in effect "in relation to the movement of traffic within, into and out of the region...known as the Maritime Provinces". The effect of this ruling was to lower the freight tariffs relative to Newfoundland. In reaching its decision the Board noted that Term 32 of the Terms of Union should be interpreted to mean "that notwithstanding certain dissimilar disadvantageous circumstances and conditions pertaining to Newfoundland, this Province is to be included ratewise in the Maritime region on a general level of rates similar to the other Maritime Provinces". In addition they noted that "Union with Canada to a large extent, altered the usual trade channels of Newfoundland. Prior to Union, much of the Island traffic funnelled by sea from the United States, Great Britain and elsewhere to Newfoundland. As part of Canada, heavy purchases by Newfoundland must now be made in Canada and in substantial quantities are channelled through the North Sydney-Port-aux-Basques route and thence by rail (narrow gauge) across the Island. It is not unreasonable to suppose that the Welfare and Economy of Newfoundland was uppermost in the minds of all negotiators..."

Despite the subsequent passage of time, and the progress in the field of transportation within Newfoundland and Labrador, the same basic issues are still at stake—the Welfare and Economy of our Province. There can be no doubt that Newfoundland and Labrador have made much progress, in an economic

sense, but the disparity between this Province and the other Canadian Provinces, continues to exist and in many instances has been magnified.

The Government have done much to introduce new industries to the Province in an effort to increase the economic well-being of the Province and to reduce the economic gap. Without further Federal assistance and a more sophisticated, adequate and comprehensive transport communications network to offset our geographical isolation, the economic gap will continue to widen. The need for such a modern system of transportation is imperative. We still have many communities unable to avail themselves of the normal amenities of modern Canadian life, and whose only transportation link with the rest of the Province, or the rest of Canada, is a coastal vessel, subject to the vagaries of the weather or the season.

Recently, after a meeting with the Federal Minister of Transport senior representatives of the four Atlantic Provinces met in Moncton to commence work on the formulation of a new transportation policy for the Atlantic Region. It is hoped that this group or Task Force, as it has been named, will produce a policy, acceptable to the Federal and Provincial Governments, which will assist and permit the development of the Atlantic Region on a basis which is comparable to the more economically advanced Provinces of Canada. The problems confronting this working group are numerous and complex. The solution of these problems on a Provincial basis would be difficult enough—their solution on a Regional basis will require prolonged non-partisan effort. The Province of Newfoundland and Labrador have agreed, in co-operation with the other Provinces, not to place, at this time, before your committee, problems for which there may be a regional solution. Our very urgent need for an up-to-date comprehensive system of road communications is not regional by nature, since Newfoundland, despite recent progress, still lags far behind the rest of Canada in this economically vital aspect. The submission which we place before you will deal with this need.

#### *Historical review of Road Development*

For the purposes of this submission it is proposed to deal with the history of road construction in Newfoundland and Labrador under two headings:

- (a) Construction prior to Confederation
- (b) Construction since Confederation

#### *Construction prior to Confederation*

It is safe to say that prior to Confederation there was little or no co-ordination in the programme of road construction in the Province. The Newfoundland railway provided the one and only land-link between, the industrial complex at Corner Brook on the West Coast, a similar development in Central Newfoundland, and the Capital, located on the extreme eastern point in the Province. While it is true that some efforts were made by the Commission of Government between 1934 and 1949, our road network saw little improvement. In fact, at the beginning of Confederation, if the roads on the Avalon Peninsula were excluded, the two private paper companies at Grand Falls and Corner Brook owned more roads than the Government of the Province. It is also true that while some "local" roads existed, and in some areas some few miles of road linking various groups of communities, no effort had been made to establish a road network connecting all or nearly all of our 1300 communities, scattered as they were around the periphery of the Island. The sea had been our main highway for 400 years, with the result that 60 per cent of our population lived in complete isolation. The first task of the Government of the new Province was to break this isolation. The progress achieved in the short span of less than twenty years has been classed by all observers as phenomenal.

#### *Construction since Confederation*

As already stated, the first task of the Government following Confederation was to attack with vigor the curse of isolation. If Newfoundland were to survive as a Province of Canada, if our people were to avail of the many blessings our Union afforded, no village, no town, no groups of towns could be left without a road link. The almost total dependence on water transport left all of Newfoundland, except those communities served by the railway, and those on the south west coast where winter travel by boat is practical, in complete isolation. The effect that this had on business, education, and medical services, defies description.

The Government was faced with this same problem in each and every field of its responsibility. The gross income of the Province was woefully inadequate, insufficient to meet the most pressing needs in any one field. The Province was faced with problems which



would have caused even the bravest to falter. In Health, Education, Welfare and other essential public services we found the demands for improvements to be overwhelming.

For the purposes of this brief it is our intention to deal only with those aspects of our progress in road transportation which have a federal involvement and participation. It is sufficient to say that during the period 1949-1968 we have almost completed a network of connecting roads. Many miles of these roads are substandard, 80 per cent have a gravel surface and with the exception of the Trans-Canada Highway, 90 per cent of our structures, bridges, culverts, etc. are restricted to very low maximum gross weights (30,000 lbs. or less). The problem facing the Province today is one of upgrading existing roads, more than the construction of new roads. The road from Forteau to Labrador City—a distance of 553 miles—just a few miles shorter than T.C.H. from St. John's to Port-aux-Basques at an estimated cost of \$150 million—is the one major exception.

Attached to this submission are maps and a set of tables. The tables outline the work undertaken and performed since Confederation, with the assistance of the Government of Canada. Table I refers to the Trans-Canada Highway. Table II to Roads to Resources Agreement, and Table III The Trunk Roads (A.D.B. I and II) Agreements. We will deal with each of these Tables in turn.

#### Table I—*Trans-Canada Highway*

The significant point to be noted here is that, although a Trans-Canada Highway Agreement was signed by the Province in the early days of Confederation, no paving was done during the period 1949-1957, and a total of 225.93 miles were graded. During this period both Governments shared the cost on a fifty-fifty basis.

The Federal Government further supplemented this cost-sharing program for the period 1958-1959-1960 by agreeing to pay a further 40 per cent on the cost of construction of 10 per cent of the total T.C.H. mileage. The result was that in these three years 77 miles were constructed and 185 miles paved, including the section through the Terra Nova National Park of approximately 25 miles.

In 1963, the Federal Government amended these prior agreements, and agreed to pay 90

per cent of the total construction costs on the T.C.H. for the period 1 April 1963 to 31 December 1967. This agreement has since been modified to extend the completion date for construction to 31 December 1970. With this assistance the first paved highway link between the Eastern and Western extremes of Newfoundland were completed in 1965, with 128 miles constructed in 1964 and 217 miles paved in 1965.

These figures point out very forcibly that, without the Federal contribution of 90 per cent of the overall costs, the Province could never have undertaken the completion of the T.C.H., within the terms of the Federal-Provincial agreement.

#### Table II—*Roads to Resources Agreement*

This Table refers to the work undertaken under the Roads to Resources Programme. It is significant that under this agreement whereby the Province shared on an equal basis with the Government of Canada while most of the work was undertaken in the early 1960's it was necessary for the Province to make its own financial arrangements to spread payments over a much longer period.

#### Table III—*The Trunk Roads Agreements*

Under A.D.B. Agreements I and II the Federal Government made available a total of 12 million dollars on a fifty-fifty basis. The Province undertook a total of \$25 million of work. History has shown, particularly in the case of the construction of the Trans-Canada Highway, that no real progress can or will be made with the upgrading of our trunk roads on a straight 50/50 agreement. The Province cannot afford such a programme having regard for its other budgetary commitments in the fields of health, education and other essential services.

It is estimated that the total cost of upgrading and paving all our trunk roads will cost in excess of \$244,000,000 plus an additional \$150,000,000 for the proposed Labrador road—a total of nearly \$400,000,000.

#### *Map of Trunk Roads*

The attached map outlines the roads generally accepted in this Province as coming within the meaning of "Trunk Roads". You will note from the map that all the roads mentioned branch out from Trans-Canada Highway. The T.C.H. forms the spine or back-bone



of our transportation system—the trunk roads are the essential appendages.

#### *The Case for Upgrading*

With the completion of the Trans-Canada Highway and the improvement of the ferries across the Cabot Strait, Newfoundland for the first time in its history saw vehicular traffic having a gross weight of 30,000 lbs. The Trans-Canada Highway is designed to carry weights up to 74,000 lbs. (we have handled loads in excess of 130,000 lbs. under special permit). Not only have our load limits increased, but the number of registered vehicles has increased in a spectacular manner in the past few years. We now find ourselves placed in an untenable position. Traffic moving on T.C.H. is prohibited from using our trunk roads if their weights are in excess of 30,000 pounds, unless of course special permits can be issued. Many of our bridges were constructed some 20 years ago to a standard (H.10) which makes them unsafe for loads over 30,000 pounds.

Much of the industrial growth in Newfoundland is taking place off the Trans-Canada Highway, and traffic must use these roads. We would point out that the great industrial development on the Burin Peninsula comprising four large fish plants, a ship-building complex, and the only fluorspar mine in Canada, is separated from the T.C.H. by 100 miles of substandard gravel trunk road, on which there are four major structures restricted to 30,000 pounds or less. The same applies on the Bonavista Peninsula, the Great Northern Peninsula, and in fact, on each and every trunk road delineated on the attached map.

The wear and tear of vehicles obliged to use these roads makes it impossible for truckers to operate profitably without charging abnormally high rates, which must be passed on to the consumer, thereby adding to our cost of living which is already one of the highest in Canada.

The maintenance cost of gravel roads as compared with that of paved roads runs in the ratio of 4 to 1 per vehicle-mile. The maintenance cost of vehicles on gravel roads is 10 times that of those using paved roads exclusively. The three major items involved are tires, shocks and springs (Dept. of Highways—Nfld. Statistics).

The maintenance of our trunk roads costs the Province around \$4,000,000 annually.

The movement of unprotected articles of food over gravel roads, particularly the movement of fresh fish from the producer to the plant, is being closely watched by Health authorities.

In summary it can be said that the economic growth of the Province is being impeded and will continue to be impeded by these substandard roads.

#### *Cost Factors:*

On the day of the Committee's hearing in St. John's February 23, we propose to add to this brief a table showing:

- (a) The overall cost of reconstructing and paving the roads referred to in the attached map.
- (b) The cost of maintenance of these gravel roads for the period 1960-1968.
- (c) The cost of reconstructing and paving these roads in relation to the Provincial budget.

The time available prior to the submission date stipulated by the committee does not permit the compilation of the necessary data for inclusion with this paper.

It is our considered opinion, based on the mileages involved, and the ever escalating cost of road construction, that the overall cost would be in excess of \$240,000,000. A figure of even half that amount is beyond Provincial resources unless it can be spread over the next 20 years, and we cannot afford to wait that long.

It is significant to note that the Royal Commission on Transportation, 1961, (MacPherson) stated as follows:

"An improving highway system is one of the more important elements in the developing transportation system.

"Growth in long-haul trucking is another trend which has entered the competitive picture in transport and with the completion of the Trans-Canada Highway more firms are becoming interested in this relatively new area of trucking operation." Page 21-22 Vol. 1

In referring to the special transportation problems which exist in Newfoundland, the Commission recorded that "the present transportation needs can best be met by a system

of roads and highways throughout the Island. Such a system of roads would greatly lower the cost of distributing consumer goods and would be especially valuable in handling containers arriving by ship, rail or air. It would also allow for the phasing out of the coastal steamers operating at the considerable loss of nearly \$3 million a year.

A highway network of the size necessary is beyond the present resources of Canadians in Newfoundland. The situation calls for assistance by the Federal Government and there are enough precedents for such a programme. Public works to stimulate the economy of a province or an area have been a continuing part of national policy in Canada. For example, assistance in constructing power plants and irrigation systems as well as transportation facilities in all parts of Canada can be cited. What canals and locks did for the economy of the Central Provinces, what the transcontinental railways did for the Prairies, highways can do for Newfoundland.

We are convinced that such a programme is in the national interest. It would stimulate the economy of the Island with attendant benefits to the rest of Canada. All this could be accomplished in a short time with a relatively modest outlay of public funds". Page 272 Vol. 2.

This report was compiled in 1961—4 years before the completion of the Trans-Canada Highway. They foresaw the acute problem outlined above.

The Lewis Royal Commission on Transportation 1966 (a Provincial Government Report) emphasizes the same point.

It is significant that without exception every report on this question, whether it has approached the question from an economic viewpoint, a socio-economic viewpoint, or from a straight transportation point of view, has reached the same conclusions that:

(a) an up-to-date all weather road system is needed in Newfoundland.

(b) the provision of such a road system is beyond the means of the Provincial treasury.

#### Conclusion:

It is obvious that solution of Newfoundland's transportation problems, as they exist at this point in time, requires assistance, in

addition to that provided by the provisions of the Maritimes Freight Rates Act, which only affects the operation of the C.N.R.

In the main, the construction of our trunk roads has served those places which normally depended on C.N.R. coastal services to provide them with their one and only link to the outside world. There is no doubt that over the years the Canadian National Railway has followed a policy of gradually withdrawing services when and where a road link was provided. This is abundantly clear on the North-east and Northwest coasts of Newfoundland. It must be assumed that this withdrawal of services has resulted in considerable savings to the Federal Government. It is known that where services have been withdrawn, added financial burdens have accrued to the Provincial Government for the maintenance of transportation facilities on a year-round basis.

There are indications that further curtailment of services are envisaged. If this is to be the case, it must only be allowed after full consultation with the Provincial Government, and undertaken on a quid pro quo basis.

The terms of reference of the Standing Committee on Transport and Communications state, in part, that the Committee is empowered to study and make recommendations concerning "alternative methods of assisting transportation in the Atlantic Provinces, either in addition to the M.F.R.A. or in substitution therefor, in all or in part, with the purpose that maximum benefits be obtained by the Atlantic Provinces from the expenditure being made".

We firmly believe that one of the best alternative methods would be the construction of a comprehensive, up-to-date road network in Newfoundland and Labrador. It is imperative that such a road network be developed as part of a long-term (10 years) project. This long-term basis is necessary due to the obvious limitations of the Provincial budget, and the need for co-ordinated long range planning in contrast to the project-to-project basis of past experience.

The total cost of this comprehensive road network would be, as previously mentioned, approximately \$400 million. Without Federal assistance of at least seventy-five percent, this project would not be economically feasible for this Province.

Assistance from the Federal Government, of this nature, would allow the Province of Newfoundland and Labrador to move toward the full utilization of its great natural

resources, thereby strengthening its economy and permitting the people of this Province to enjoy privileges and responsibilities of Canadian citizenship.

TABLE I  
Trans Canada Construction

Year	Grading Miles	Paving Miles	Total Cost	Contribution Fed. Govt.
1949) .....	4.00			
50) .....	39.30		2,342,242	1,090,085
51 .....	32.45		1,991,581	1,022,874
52 .....	19.47		991,024	547,195
53 .....	19.80		1,664,829	977,045
54 .....	38.46		4,642,385	2,017,829
55 .....	45.30		4,267,970	2,239,544
56 .....	16.15		1,818,135	1,142,788
57 .....	21.00		1,265,652	994,012
58 .....	36.70	37.05	6,923,836	4,860,044°
59 .....	39.10	28.20	9,582,094	7,460,154
60 .....	1.12	119.72*	7,356,169	5,490,951
61 .....	12.49	11.00	2,652,361	1,435,030
62 .....	16.60	3.60	1,884,096	948,962
63 .....	34.11	85.76	14,176,081	11,704,359x
64 .....	128.12	62.60	30,385,298	26,180,143
65 .....	57.97	216.79	26,371,434	21,177,495
66 .....			2,779,827	4,309,158
67 (est.) ..			10,000,000	9,000,000
TOTALS ..	562.14	564.72	131,095,014	102,597,668

\* Includes 25.40 miles T.N. Park.

° Federal Government paid 90% of 10% of total T.C.H. Mileage.

x Start of 90/10 agreement.

TABLE II  
ROADS TO RESOURCES

Year	Miles	Total Cost	Federal Contribution
1958 .....	7.5	160,000	77,221
1959 .....	17.37	670,237	356,828
1960 .....	34.70	1,646,240	849,160
1961 .....	54.00	1,776,732	794,272
1962 .....	62.60	2,226,663	944,689
1963 .....	13.33	2,019,663	1,048,325
1964 .....	11.00	2,885,506	833,082
1965 .....	13.35	1,894,793	—
1966 .....	3.00	1,665,349	1,344,454
1968 (est.) .....		1,370,000	750,000



TABLE III  
ATLANTIC DEVELOPMENT BOARD  
AGREEMENT 1 & 2

Year	Miles	Total Cost	Federal Contribution
1965 .....	36.8	307,530	—
1966 .....	67.8	4,431,500	2,894,628
1967 .....	35.77	10,199,611	5,718,014
1968 (est.) .....		9,675,000	3,500,000







## APPENDIX A-14

February 11, 1968.

## BRIEF

BY

THE NEWFOUNDLAND BOARD OF TRADE  
FOR HEARINGS AT ST. JOHN'S

## INTRODUCTION

1. The Newfoundland Board of Trade represents business interests throughout the Province of Newfoundland and Labrador. We therefore welcome this opportunity to submit our views on Transportation—a matter vital to business and accordingly to the Community at large.

2. Our prime concern is that in the interest of business and of our people effective legislation will be introduced and implemented to cope with the vital transportation problems peculiar to this Province.

3. In presenting this brief we point out that:

(a) the Newfoundland Board of Trade serves as an organization of 12 Member Chambers of Commerce representative of 685 individual members most of whom can be said to be associated with this Brief;

(b) Newfoundland Board of Trade is also representative of 270 corporate and 379 individual members in St. John's and of an additional 100-odd members elsewhere;

(c) the interests and responsibilities implicit in the above categories of membership include those of our Construction; Heavy Trucking & Transport; Retail; and Wholesale Sections not to mention our Financial and other specialized Groups;

(d) the Newfoundland Branch of the Canadian Manufacturers' Association et al., wish likewise to be associated with us in our submission.

## GENERAL STATEMENT

4. We submit in respect of Transportation in this Province that immediate action is needed;

- (a) to improve services; and
- (b) to lower costs.

5. In order to fulfil these two objectives, that is;

(a) to improve services; and (b) to lower costs, it is necessary to reassess the flow of incoming, outgoing, inter and intra Provincial freight.

6. The most significant factor affecting the livelihood of the people of this Province is the transportation of the bulk of incoming or East bound freight—in itself the major part of all movements.

7. The movement of over 90% of our incoming, Eastbound traffic is restricted to two carriers—Canadian National Railways and Newfoundland Steamships (1965) Limited, (Clarke Traffic Services Limited).

8. As freight rates applicable to this Province are governed by what the Canadian National Railways may charge, there is no true competition—certainly not the “vigorous competition” to which the report of the MacPherson Royal Commission on Transportation referred nor the kind of competition that reduces costs considerably in the Central Provinces.

9. Since the Province of Newfoundland entered Confederation on April 1st, 1949, the C.N.R. has been authorized to increase freight rates from a base of 100 to the present level which is 197. (The latest authorization for increase became effective March 23, 1967 and with passage of the National Transportation Act. If a clause had not been inserted calling for a freeze in rates for two years the new rate would be 209). We feel that the increase in rates have been applied to a fuller degree in Newfoundland and because the C.N.R. does not have the same competition as elsewhere in Canada. Furthermore, we feel that freight rate increases on a horizontal basis places a heavier burden on Newfoundland and because the 97% increase applies on a more expensive base. For example let us assume that the freight cost on a certain commodity was \$12.00 a ton from Toronto to Montreal in 1949. The freight cost from Toronto to St. John's on the same commodity could conceivably be \$40.00 per ton.

If you apply the 97 per cent increase on the Toronto-Montreal shipment the additional cost would be \$11.64 per ton whereas the same rate of increase on the Toronto-St. John's shipment would mean an additional cost of \$38.80 per ton.

10. Thus vitally necessary industrial expansion is inhibited; and the climate for development of the potential of this Province is adverse; the environment created by transportation concessions originally to enable other parts of Canada to fulfil their role in the National Economy is virtually non-existent in this Province, placed as it is in a position similar to that in the West in the 19th Century.

11. A sad and costly experience during at least two recent Winters when about 1000 freight cars were "backed up" from Sydney along the line to Truro awaiting improvement of ice conditions for shipment to Port-aux-Basques in Newfoundland caused us to be the instigators of further research into the feasibility of an alternate route.

12. Nevertheless, we feel that, bearing in mind the factors of capital cost, of established facilities at the two ports in question, of current employment and investment; and now, technology that has developed during the interim, we feel the time has come when the use of ships properly equipped to cope with ice conditions would solve the problem of continuity so important to our very existence. If this is not economically feasible then we strongly recommend that freight destined for the East Coast of Newfoundland be diverted to Halifax when ice conditions occur in the Gulf.

13. Whilst outgoing or West Bound freight at the moment is limited in respect of Rail movements, our exports generally going by sea, nevertheless we will have more need for adequate continuous low cost service across the Cabot Strait as our new industries develop.

14. For this reason it is imperative that the provisions of the Maritimes Freight Rates Act continue to be made applicable if not increased until this Province in concert with the rest of the Atlantic region reach an equitable position in relation to the Nation as a whole.

15. Apart from our views and recommendations above in respect of outgoing, including inter Provincial traffic, the need for continuation and extension of the provisions of the Maritime Freight Rates Act is vital.

16. We have already recommended and now reaffirm that monies saved by the phasing out of the C.N.R. Branch line to Bonavista should be applied to improvement and paving of the main access road of the Bonavista Peninsula to the Trans-Canada Highway at Clarenceville.

17. At the same time we endorse any consideration that may be given to the gradual phasing out of the C.N.R. Coastal service provided that it is adequately supplemented in the process up to the point of actual replacement and that monies formerly allocated to maintain the Coastal service in the public interest be applied likewise to the development of an adequate system of trunk roads with attendant services.

18. Here we inject a note of caution by stating that prior to the abandonment of any existing Public service the cost to the taxpayer of the alternative must be properly assessed to insure that whatever decision is taken the Public receives the best possible service at the lowest possible cost.

## SUMMARY

To summarize, the position of Newfoundland and Labrador is that:

(1) we are forced to cope with costly one-way transportation, over 2000 odd miles, of essential goods from the Mainland manufacturing centres of Quebec and Ontario for which we provide a captive market.

(2) the problem of cost and continuity of adequate service is compounded by carriage across water from the Mainland to this Province and within the Province—especially to our own Mainland of Labrador:

(3) competition for carriage of the bulk of our supplies is limited to the point where increasing the volume as opposed to lowering costs takes precedence in the bid for business between the two carriers mainly concerned:

(4) we are in the most vulnerable position of all the Provinces in respect not only of costs but of continuity of transportation—particularly when ice conditions in the River St.

Lawrence, the Gulf, and Cabot Strait all too frequently prevent the passage of ships inadequately equipped for the purpose:

(5) we are less favoured by the State carrier in respect of the rates authorized than are other Provinces that could better afford them—hence we bear the brunt despite our efforts to develop our vast latent potential as our contribution to Canada.

#### RECOMMENDATIONS

We strongly recommend to the Committee that in respect of transportation in this Province the Members acting corporately or individually support our pleas for:

(i) continuation if not extension of the current provisions of the Maritime Freight Rates Act;

(ii) extension of the "freeze" on any further increases in C.N.R. rates in this region until after the benefits of their full application in more industrialized areas of Canada have been proven;

(iii) introduction of better facilities for coping with ice in the St. Lawrence to ensure continuity of flow of essential freight;

(iv) re-allocation of current grants to C.N.R. Coastal and branch line operations for the purpose of extending and maintaining a system of trunk roads and attendant public services;

(v) appreciation of the fact that  $\frac{2}{3}$  of our population are centred in the Avalon Peninsula which is the most Eastern part of Newfoundland and the farthest distance removed from our main source of supply in Ontario and Quebec;

(vi) our great concern about the new non-carload rate structure introduced by the railways in September of last year, and which we know will add considerably to our present high cost of living.

(vii) whilst our submission does not include a detailed report on other forms of transportation including Trucking, Air and Steamships, nevertheless we would appreciate your providing us with an opportunity to discuss important aspects of these modes of transportation when we appear before your Committee.

(viii) we request special consideration for a reduction in rates on East bound freight either by subsidy or in some other form. If a subsidy is granted we strongly recommend it to apply to all carriers—not just to the C.N.R.—and in order to maintain a competitive environment which is so vital in bringing about reduced costs and improved services.

John J. Murphy

President Newfoundland Board of Trade  
Chairman Transportation Committee  
Executive Manager



## APPENDIX A-15

## BRIEF—

## Submitted by:

Newfoundland Hardwoods Limited  
and

Newfoundland Fibrply Limited  
Associated Companies

February 10, 1968

Shipping and Transportation in  
Newfoundland of products  
manufactured by  
Nfld. Hardwoods Ltd. and  
Nfld. Fibrply Ltd., Associated  
Companies

Since the amalgamation of the sales and shipping departments of the undersigned companies we have been confronted with the problem of unable to obtain the minimum weight requirement necessary for mixed carloads.

i.e.: Doors, CL, min. 14,000 lbs.; Plywoods, CL, min. 36,000 lbs.; Fibrply & Sheathing, CL, min. 40,000 lbs.

This is due mainly to the inability of the railway equipment to handle volume sufficient for minimum weights. Because of this we asked the railway to consider reducing the minimum to 30,000 lbs., this was refused, however, suggesting that we would use the large mainland car, which was made available to us. Upon experimenting with these cars, the door opening was not wide enough to allow our equipment to load them economically or without damaging our products. To the best of my knowledge there was only one mainland car with the wide door, which we loaded and found it to be successful. However, this car was not readily available when required.

Having obtained an Agreed Charge for Newfoundland Fibrply Ltd. some years ago for the shipping of wood particle board, we would like to suggest that this also should include the doors and plywoods in mixed cars as manufactured by our associated company, giving us minimum weights of 30,000,

36,000 and 50,000 lbs., unless otherwise providing us with the necessary equipment to handle the 40,000-50,000 lbs. minimum. This has been accomplished by our competitors in other parts of Canada, therefore, we see no logical reason for refusing us this advantage. We believe it was never intended that Newfoundland industry would be penalized because of the size of the rail equipment operated here, also that advantageous agreements of mainland companies with the railway in other parts of Canada should not be allowed in the Province of Newfoundland. Consequently, we ask this Commission, on behalf of our companies, to suggest to Canadian National that necessary steps be taken to resolve the problem as stated above.

*Shipping outside the Province  
of Newfoundland*

Our main problem here is somewhat similar to the one mentioned previously, because of the inability of the Newfoundland railway equipment to handle the higher minimum weights available to our competitors in other parts of Canada. Our cars can handle a capacity of 55,000 lbs. in relation to our products, thus leaving us with the highest minimum of 50,000 lbs. However some steps have been taken to eliminate this problem in providing us with incentive rates particularly in the shipment of wood particle board (Class 27), whereby consolidated tonnage can be made up in the shipment of two cars for one. Another problem, perhaps of greater importance is that generally with our competitors, commodity description includes the shipment of Boards or Sheets, faced or not faced with veneer, Plywood and Veneers. For us to ship a car to any part of Canada, it could include Class 27-30-33-45 and 55, minimums arranging from 36,000 lbs. to 50,000 lbs.

For example—Carload minimum 50,000 lbs.  
From: Castor, St. John's, Newfoundland to Vancouver, B.C. Wood Particle Core, Class 27—3.42/100 lbs.; Wood Particle Core, faced with native veneer, Class 30—3.80/100 lbs.; Wood Particle Core, faced with value veneer, Class 33—4.20/100 lbs.; Plywood, faced with

native veneer, Class 45—5.75/100 lbs.; Plywood, faced with value veneer, Class 55—7.43/100 lbs.; Average cost per 100 lbs.—\$4.93. However, a similar carload could be shipped from Vancouver to St. John's at the rate of 2.33/100 lbs. It could be said here that this is not a proper assessment of our problem because shipments from St. John's to Vancouver is practically nil. We are mostly interested in shipments to the Quebec and Ontario areas, where similar circumstances as the above mentioned, exists. For the year just passed we shipped approximately 125 carloads, or 3000-3500 Tons—approximately 70% of our production to the Quebec and Ontario area. Even with a foreseeable increase of 20 per cent in local sales we are still faced with the problem of what to do with the other 50 per cent of our production. This must be sold to markets outside of the province, and in particular to the central areas. Better rates can play a very important part in keeping our industry growing. At this point it would be interesting to also mention the fact that all veneers to make our finished product must be

brought in from the Montreal, Quebec area. These veneers range in cost of \$20.00 per M/sq. ft. to \$50.00 per M/sq. ft. comparable to the finished product of 175.00 per M/sq. ft. to 450.00 per M/sq. ft. However, the rate on veneers range from 1.37/100 lbs. to 1.88/100 lbs. coming from Montreal, going to Montreal the finished product ranges from .92/100 lbs. to 1.68/100 lbs. Here, no doubt, freight classification, commodity description is based only on an uneducated guess. This is somewhat similar to the general trucking rates in Nfld., whereby a carton of beans can be transported for the same rate as a carton of jewelry...providing of course, that the cartons are of the same size and shape. We have spent considerable time and money to eliminate this confusion, but being of such small size in comparison with our big competitors, we have been completely ignored.

In summary, we are asking only that we, as a small industry in size, but if I may say, big in our thinking, receive the same treatment accorded to our competitors in other parts of Canada.

## APPENDIX A-16

## SUBMISSION

BY

H. B. DAWE LIMITED

This is a family owned Maritime Company operating wholly and solely in the East Coast trade of Canada, in Canadian waters with a direct interest in the transportation of goods between the Provinces of Newfoundland and Nova Scotia and the distribution and collection of traffic in the area of the Eastern Avalon Penninsular of Newfoundland. We were the first to inaugurate a package freight deal in that goods shipped at the waterfront in Halifax were delivered to the consignee, within our area of operation, by this Company's ships and trucks. We, therefore, eliminated the annoyance to consignees of having to pick up their goods at cars or waterfront warehouses, or of having to hire other truckers to pick up their goods, and this was all incorporated in the ocean freight rate.

This was, and still is, a feature of our service and our many customers, both shippers and consignees, having become acquainted with this service appreciate the advantages and have shown their interest and desire to participate and direct their goods through this channel.

Until 1965 the operation of this freight service, "Halifax—Cupids", was in a competitive position and was showing a healthy increase in volume and revenue. But, due to the pressures of the National Railway system and the outcrys of the large Milling Companies, the tonnage of milled flour has decreased from 7,200 tons in 1964 to 1,700 tons in 1967. The loss of this tonnage to the CNR was predicated on the fact that there was a threat of an all water movement of flour from the Lakehead into Eastern Newfoundland. The Company, namely Robin Hood Flour Mills Limited, which tried the all water movement have ceased to use this method now but the agreed charges with Maple Leaf Mills Limited are still in effect.

In 1965 the CNR entered into an agreed charge arrangement with Maple Leaf Mills Limited by which the CNR agreed to reduce

the all rail movement of flour into Eastern Newfoundland, in 100,000 lb carloads, from \$1.75 per Cwt to \$1.03 per Cwt or a reduction of 72 cents per Cwt. This was done during the last year of operation of Robin Hood's all water movement and was supposedly established to make the Maple Leaf Mills meet its competitors, in price, in the market.

The fact of the matter is that the price of flour never did go down by the all rail movement or the all water movement. The price steadily climbed and if lower freight rates were instituted, not one cent went into the pockets of the consumers but it meant another 72 cents per Cwt to the millers for their advertising programmes to further dupe the gullible public. Never let it be said that this company is not in favour of a reduction in freight rates or any act or agreement which can stimulate the economy if it can be justified and can be of benefit to the average man in the street and not a burden to the Country to the advantage of the larger manufacturers.

The CNR looked for the additional tonnage for the sake of tonnage alone. The economics of the project were cast aside, as we predicted, and the claims paid out are terrific. eg. The total freight revenue on a 35 ton carload Halifax to Cupids is \$448.00. Of this 700 Cwts of flour we average a breakage of 6 to 8 Cwts which we recondition at our plant with our total final claim being approximately \$5.50 per carload. On the other hand, the carload of flour all rail to Clarke's Beach or Bay Roberts, averages a breakage of 50 Cwts which the CNR sells to the consignee for half price on which damages the consignee makes a clear profit of \$175.00. With a reduction in the freight rate of 72 cents per Cwt in 1965 and a claim of \$225.00 on each carload lot it is our contention that the Canadian Taxpayer is paying the Milling Company, through its agent the CNR, an average of \$1.02 per Cwt of flour to channel directly into the profits of the manufacturer.

High unnecessary claims and lower freight rates cannot be entertained in our economy without the necessary increase in revenue or subsidy and it is our contention that it



was not to the advantage of CNR to take this traffic away from private operators who could supervise personally the movement of flour and prevent shippers and consignees from making a large profit on supposed genuine claims. This large National Company must also feel the burdens of increasing labour costs and increased cost of replacing facilities, perhaps more than a private operator, where every cent is spared and personal supervision is given in every sphere of operation.

The direct water movement of flour is no longer a threat to the CNR as a loss of tonnage. Therefore, the Milling Company does not need a special agreed charge to make them competitive with others in the industry and we say that this unfair competition be removed as CN now hauls this total tonnage either to Halifax or North Sydney.

We have the capacity and the facilities in vessels, warehousing and trucks to further expand and give additional service to the Salt

Fish Exporters in Newfoundland and the general shippers in Eastern mainland Canada and we propose that shippers should be subsidized and permitted to use whichever transportation system they choose and not be forced by heavy subsidies to use the National carrier. Small private operators are being discriminated against while the freeze on freight rates is in effect in the Atlantic area and revenues are kept at one level while operating costs and labour costs are mounting each year. We hope that this committee will make recommendations which will assist private operators, in this area, to successfully compete for traffic in an open, unprejudiced market.

Respectfully submitted,

H. B. Dawe Limited.

J. W. Hillyard.

Cupids, Nfld.

February 13th, 1968.

APPENDIX A-17

EASTERN PROVINCIAL AIRWAYS  
(1963) LIMITED

AND ITS ROLE AS  
REGIONAL AIR CARRIER  
IN THE  
ATLANTIC REGION

GANDER

February, 1968.

HISTORICAL BACKGROUND

Eastern Provincial Airways (1963) Limited is an operating company which came into being in 1963. At the time this airline was formed it took over the assets and routes of Eastern Provincial Airways and Maritime Central Airways, and the merged entity was named Eastern Provincial Airways and Maritime Central Airways became non-operating companies.

Eastern Provincial Airways Limited was a Newfoundland company incorporated on March 10, 1949. The company commenced operations in St. John's, Newfoundland, and remained there until 1954 when operations were moved to Gander.

Between the years 1949 to 1960 the company was essentially a "bush" operator. That is to say, the airline offered non-scheduled services throughout Newfoundland and Labrador using, for the most part, small single engine aircraft on a charter basis. However, from as early as 1950 the airline also had Provincial and Federal Government contracts for the provision of air ambulance services, air mail services and other Government air transportation services. Many of these contracts have been continued to this day and, over the years, other continuing contracts for cable patrols, water bombing of forest fires and helicopter services have been added. Following a decade of experience in aircraft operations in Newfoundland and Labrador, the airline was awarded a contract in 1959 by the Royal Greenland Trade Department for the provision of air services in Greenland. This contract gradually grew in scope over the years and involved the use of two Canso aircraft during the summer months and two

Otter aircraft throughout the whole year when it was terminated in June of 1965. The contract was terminated after the Danish Authorities inaugurated their own helicopter services in Greenland.

After some eleven years of experience in "bush" aircraft operations, the company decided in 1960 to expand its services to include scheduled airline services. This decision was made because of the rapid development of the Iron Ore and Hydro-electric resources of Labrador and the expanding public need for local airline services on the Island of Newfoundland. Thus, in 1960 following a hearing in St. John's, EPA gained Air Transport Board approval for the inauguration of Class 2 scheduled air services from the Island of Newfoundland to Twin Falls and Wabush, Labrador. The Air Transport Board decision also made it possible for EPA to provide air service between St. John's, Gander and Deer Lake. The services were inaugurated in July, 1961, and flights are now operated regularly on this route as well as others.

In western Newfoundland, the airline provides scheduled service to Deer Lake airport. This is because Deer Lake is the centre linking important and expanding communities on the west coast. Deer Lake is used also as a terminal for incoming feeder service to connect with the airline's scheduled services. In western Newfoundland the company has a base at South Brook and Deer Lake with facilities for float and/or ski-equipped aircraft for charter operations.

One of the more important facets of EPA's operation through the years has been its winter mail service throughout the Province. The big delivery begins each year when the coastal boat services are discontinued for the period of freeze-up. This usually takes place in mid-November for Labrador and in early December for Northern Newfoundland. Using Otter and Beaver aircraft, as well as helicopters, the job is to fly mail to and from dozens of small communities in the Province. The flying is often done under severe conditions and requires highly skilled bush pilots. EPA

schedules hundreds of mail flights during a typical winter season and deliveries run to hundreds of thousands of pounds. Peak year for mail service was 1959 when the company served as many as 47 outposts and distributed over 800,000 lbs. of mail.

EPA's air ambulance service is another interesting and very essential facet of the company's diversified operation. The service is operated in conjunction with the Provincial Department of Health and the International Grenfell Association. Thousands of patients are carried from the outpost settlements each year by plane to the hospitals in the larger centres. The company's on-the-spot turnout for all emergency calls has actually saved hundreds of lives during the years. In most cases the patient is transported by air to the nearest hospital, but in some instances doctors and nurses have been rushed to out-of-the-way settlements for emergency service.

Fire is the greatest threat to the forests of Newfoundland and Labrador, and it is in the sphere of fire fighting that EPA plays a major role. The company has a continuing contract with the local government under which it operates PBY Canso water bombers for forest fire control. Each aircraft is equipped with an 800 gallon tank. To fill the tank, the aircraft skims along the surface of a lake, scoops up the water and fills the tank to capacity within 20 seconds. The whole load can then be dumped on a fire in approximately one second. EPA's entire fleet of bush aircraft is on the alert during periods of extensive forest fires for the transportation of fire fighting crews and the evacuation of threatened communities.

In the spring of 1963, the company inaugurated prop-jet services in Newfoundland and Labrador with a substantial time saving to the travelling public. The year 1963 was also of great significance to the airline for it was in that year the company merged with Maritime Central Airways to create the new Eastern Provincial Airways.

Maritime Central Airways had been an operating company for some twenty years. It provided local air service in Prince Edward Island, New Brunswick and Nova Scotia. Additionally, MCA operated passenger services

from the Island of Newfoundland to Goose Bay and cargo services from the mainland to Labrador.

The basis for the merger was economic. Both airline managements realized that the Atlantic Provinces could not support two regional air carriers. Accordingly, in an effort to create a more viable regional air carrier, the two airlines were merged in 1963 to become Eastern Provincial Airways (1963) Limited.

### THE CONTRIBUTION TO THE ATLANTIC REGION

Eastern Provincial Airways has been designated a Regional Carrier and defines the Atlantic Region as the four Atlantic Provinces plus the Magdalen Islands. A very large expenditure in resources of all description over the past 25 years has been made by the Company in developing Air Services and serving the needs of the public in the Maritimes, most particularly Prince Edward Island and the Magdalens where the waters of the Gulf make air transport a most important, if not a vital need. Services between mainland points in the Maritimes were instituted in early years and succumbed to competition from surface transport or the National Carrier.

In the past fifteen years equal or more strenuous efforts have been made to meet the needs for Air Transport in Newfoundland and Labrador with particular emphasis on Goose, Labrador City and now Churchill Falls. Here the water and wilderness barriers have made aircraft more vital than ever to the development of the region. The Hon. J. R. Smallwood publicly stated that if there had been no Regional Carrier his Government would have been forced to form one in order to maintain communications between the Island and the remote points in Labrador.

The airline is investing substantial sums in training programs for mechanics, pilots, supervisory and management personnel. The skills necessary in the pilot and engineering trades are in short supply and the scarcity will become more acute in the next few years. Although the airline takes considerable



pride in the results of its training program, much greater sums will be necessary very soon.

One illustration of the direct contribution to the economy of the Atlantic Region is tabulated below:

Region	Total	Salaries & Wages	Materials, Supplies & Services
Nfld. & Labrador .....	\$ 4,714,400	\$ 2,364,400	\$ 2,350,000
New Brunswick .....	1,086,300	606,300	480,000
Nova Scotia .....	106,700	26,700	80,000
P.E.I. ....	166,200	46,200	120,000
Other Canadian .....	1,029,400	48,400	981,000
U.K. and U.S. ....	375,000	—	375,000
Totals .....	\$ 7,478,000	\$ 3,092,000	\$ 4,386,000

In 1967 the airline carried 108,398 passengers and flew a total of 1,806,560 miles on scheduled services for a combined figure of 28,112,622 passenger miles. The freight, mail and express last year amounted to 2,654,376 ton miles.

The operating revenues for the year were \$7,255,611 dollars and the operating expenses were \$7,691,815. With miscellaneous non-operating revenues and interest expenses added the net loss was \$610,832. The audit for the year has not been completed but the final figures will be only slightly different.

The net result is very similar to the previous year's result. The charter and bush operations show a substantial profit and the losses are attributable to the scheduled freight and passenger services. This has been the trend for several years. It is the contention of Eastern Provincial Airways that it is a practical impossibility for a carrier providing local services and scheduled developmental services to break even. This is because such a carrier experiences inherent disadvantages in all aspects of the economic equation: operating on the high point of the direct operating cost curve; having passenger yields which are too low to absorb direct costs and leave sufficient funds to absorb the indirect costs; operating low density routes with resulting low load factors on short stage lengths.

REGIONAL AIR CARRIER POLICY

The Federal Government has long recognized the problems of the Air Carriers and after lengthy and involved studies has enunciated policies for the two trunk and five

Regional Airlines. Circulars 61/66 and 62/62 issued by the Air Transport Board in October, 1966, spell out the Subsidy Policy and the Regional Aviation Policy in detail. There are, however, a number of points of policy still undefined or not yet clear.

In the Subsidy Policy Statement just referred to the following words are used: "A limited policy of temporary subsidies will be introduced." This must be taken literally and it implies that a Regional Carrier requiring subsidies must take early steps to establish new routes or acquire one or more routes from the Trunk Carriers which will offer an opportunity to earn a return that will make a subsidy unnecessary. This in turn implies that the Regional Carrier will cross subsidize uneconomic routes with profitable ones contrary to modern economic thought.

The Regional Aviation Policy states: "Regional Carriers will provide regular route operations into the North and will operate local or regional routes to supplement the domestic mainline operations of Air Canada and Canadian Pacific Air Lines Ltd; they will be limited to a regional role." In the Atlantic Region there are very few if any purely regional routes which are profitable because of the inherent characteristics already mentioned of low yield, low traffic density and short stage lengths. Any transfer of such routes to a Regional Carrier is likely to add to the economic burden.

The Policy Statement also said the Air Transport Board (now the Air Transport Committee) will bring forward its specific

recommendations on regional route transfers and the procedures, therefor, following the determination of the relative participation of Air Canada and Canadian Pacific in domestic trans-continental operations. Specific recommendations have not yet been made public.

In the meantime, and because of applications made by Quebecair to serve Bathurst and Nordair to serve Churchill Falls, both in the Atlantic Region, it has become necessary for E.P.A. to make application for a route Charlottetown, Bathurst, Montreal and Goose Bay, Churchill, Montreal in order to defend its position as the Regional Carrier. This is in advance of the promulgation of the further policy definitions which are so very necessary for orderly development. The addition of these two routes would strengthen the position of Eastern Provincial Airways very substantially although they will not put the airline on a self-supporting basis at least for some time.

The Statement of Principles on Regional Aviation Policy tabled in the House of Commons by the Minister of Transport on October 20, 1966, refers to the possibility of special all cargo services for Regional Carriers and in its Circular the Air Transport Board says it will issue criteria for such services. The McPherson Royal Commission in December, 1961, recommended that *"every encouragement and assistance should be given any firm willing and able to offer an all-cargo service from the Mainland to Newfoundland."* The recommendation refers to air cargo. The Economist Intelligence Unit in the "Atlantic Provinces Transportation Study" concludes that in the case of Newfoundland subsidies are necessary on transport cost but they should be made non-discriminatory and paid on all transportation modes. Further conclusions were that overnight air delivery and the advantages of air cargo to shippers were factors favouring an air cargo service although a real breakthrough depended upon very large aircraft for which there was not yet sufficient traffic.

Although the uni-directional flow in traffic is a very difficult problem, Eastern Provincial Airways contends that there is a role for specialized air cargo service in the Atlantic Region. One such type of service is the carriage of all the mails other than the first class mails now carried on Air Canada. Approximately 20,000,000 pounds of second, third and fourth

class mail enters Newfoundland annually from the Mainland and the volume increases steadily each year. This traffic could be transported by air and when subsidies are equitably distributed the cost would not be greater than the costs for current surface transport. A saving in delivery time of three or four days could be achieved between Montreal/Ottawa and Newfoundland points for greater public convenience.

Each Regional Carrier will have to have access to a large market if it is to become economically viable. In the case of Eastern Provincial Airways this market is Montreal and the access is Goose to Churchill to Montreal and Charlottetown to Bathurst to Montreal. The route through Northwestern New Brunswick is a new one not presently served and, therefore, falls within the Regional Policy. The route through Churchill is a developmental route but in part at least it is served by Air Canada and requires a policy decision regarding the possible transfer to the Regional Carrier.

If the policy finally declares that Regional Carriers will be confined to purely local service routes, the subsidies will become permanent rather than temporary. The local services are vitally necessary in some areas and perform desirable socio-economic functions in others. The answer lies in a proper mix of Regional Air Carrier services between the purely local very short haul and the longer haul regional operations serving the remote areas of development and entering the large market areas.

Until the mix of services is clearly defined it is not possible to determine what type of aircraft should be used. Because of the efficiencies which can be achieved leading to very substantial economies in unit costs, E.P.A. has been giving very close study to the medium range jets for the longer routes now existing or proposed. At the same time this airline has been giving close study to turbine propeller aircraft with shorter range and smaller capacity for the local services which will connect with the trunk routes. All of this poses the eventual problem of financing equipment needs of this type. The Government has not made any public announcements on the problem although it is understood that some study has been given to it.



## SOCIO-ECONOMIC SERVICES

The airline has operated and continues to operate services for socio-economic reasons and there is a demand for more of this type of service from time to time. In nearly every case there is no airport or very limited facilities in the community or the area to be served. Very often the construction of suitable landing areas and associated ground aids to navigation is prohibitively costly and as a result the service has been denied.

Marystown in Newfoundland, the site of a very substantial industrial development, is one community in this category. Costs for an airport fully equipped to handle conventional aircraft would undoubtedly exceed \$1,000,000. The answer lies in the STOL aircraft which require landing areas with minimum dimensions and consequently very much less in capital costs. The Twin Otter designed and manufactured by De Havilland in Canada is such an aircraft. The first cost is high and as a result a very high passenger yield is necessary to recover the investment. The Government could make this investment in aircraft rather than airport property for an overall saving and, assuming the rate of return was no greater for the aircraft than the airport, the flying cost could be reduced so that reasonable fares acceptable to the public could be charged.

St. Anthony has a three thousand foot gravel strip which serves the Northern Peninsula of Newfoundland. It is 90 degrees from the prevailing winds which very frequently exceed the cross wind landing limits for DC-3 aircraft. The flight schedules are badly disrupted and operational reliability is very poor because of this factor. A second runway would have to be constructed over a muskeg at a very high cost. Public convenience and need require reliable air services and the most economical answer is some public investment in STOL aircraft.

The same aircraft could be used on many other local services even though the STOL capabilities might not be required in all cases. In the United States the Twin Otter has been gaining a wide and rapid acceptance in the so-called commuter services which feed into the trunk lines at the major airports. Similar operations are needed in the larger Canadian metropolitan centres and the aircraft could be used in the shuttle or local services around the Maritime Provinces when that part of the Regional Policy becomes clearer.

Government financial assistance for the Twin Otter might be provided in several ways:

(i) Guarantee by the Government of equipment loan and interest (at low interest rates) up to a certain maximum (say \$2 M) and a minimum period of 7 years. A very successful plan along these lines was instituted by the U.S. Civil Aeronautics Board in 1957 to assist the thirteen U.S. Local Service airlines to replace old DC-3's with modern aircraft.

(ii) Acquisition of the equipment by the Government with a lease-purchase agreement whereby the operator could purchase the equipment at the end of say 7 years or at any stage during the term of the agreement.

(iii) On routes where it was agreed by the Air Transport Board that service is (a) marginal, (b) could be developed on a profitable basis with suitable equipment, (c) required subsidy during a developmental period, an arrangement whereby the Government in lieu of subsidy might purchase and give to the carrier concerned a Twin Otter to be operated on the prescribed routes in an agreed manner. If the carrier was able over a reasonable period to eliminate the subsidy, a formula could be worked out to enable the operator to purchase the aircraft at an agreed price.

(iv) The Government might consider granting waiver of royalty on both the aircraft and United Aircraft of Canada PT-6 engine, both these developments having been partially funded through D of I and D.D.P.?

(v) The Departments of Transport and Industry might establish a joint "equipment purchase fund" from which money could be loaned to qualified Canadian carriers for the purchase of Twin Otter aircraft at the same interest rates enjoyed by Air Canada.

Eastern Provincial Airways has been burdened for some time with excessive costs in the maintenance and operation of airports in the Atlantic Region. This arises from the Department of Transport policy whereby an agreement is entered into with the local community to operate and maintain a local airport constructed out of public funds to Department specifications. The community is entitled to subsidies which will recover all its



costs but the elected representatives are changed and interest in the airport fades particularly when it is determined there is no direct revenue to the town. Administrative and management abilities are frequently lacking and local rivalries or jealousies intrude upon the operation. In the end the airline having the greatest use for the airport is saddled with the burden and without recourse to the Department of Transport for aid.

This airline has had the same experience at several airports in the past, but is now burdened heavily with the responsibilities at St. Anthony. In 1967 the number of passengers that moved through the airport on scheduled services totalled 2623. It has been necessary for E.P.A. to establish lights and a lighting plant, a radio beacon and a small terminal building in addition to snow clearing and runway maintenance.

In our view there is nothing at all to be achieved in insisting that the Municipality of St. Anthony honour and carry out their agreement with the Department. If the investment in public funds is to be protected properly and further development of the facility achieved in the interest of the public at large and in the development of the area, the D.O.T. should assume full responsibility. It should be pointed out that the airport serves all the communities in the area and

not just St. Anthony. Once having assumed the responsibility for the entire operation the Department could contract for the work to be done.

### SUMMARY

In order to reasonably plan for further route development, equipment needs and financing, Eastern Provincial Airways needs to know:

(i) What routes will be opened up in the Atlantic Region.

(ii) What will be the mix between long range regional and local service routes in the Atlantic Region.

(iii) What are the routes that may be transferred from the Trunk Carrier.

(iv) What are the criteria for special all-cargo services.

(v) What assistance will be given in financing new aircraft.

The airline recommends that a policy of financing aircraft in lieu of airports should be examined for application in those areas where there would be overall economies accruing to the Government. The airline recommends a complete review of the D.O.T. policies on local and municipal airports served by scheduled or regular air services.

## APPENDIX A-18

## BRIEF

## BY

## SPRINGDALE CHAMBER OF COMMERCE

February 1968

The Springdale Chamber of Commerce endorses in entirety the brief submitted by the Newfoundland Board of Trade, and supports the Central Newfoundland Chamber of Commerce on their recommendations. The problem of transportation in the Springdale area is to some extent in a different category not being on a direct rail line or being serviced by Clarke Traffic Services.

We recommend and request that the subsidized Clarke Traffic Services to Botwood, and by truck delivery to points in Central Newfoundland, be extended to include Springdale, which is only twenty miles further from Botwood by truck, than is Gander. The Springdale area at present receives no benefit from this subsidized mode of transportation.

Further recommend that suitable facilities be established by the CNR at Springdale, to provide the express freight services by CNR truck to Springdale from Badger, Nfld.

We would like to emphasize the vital importance of Badger CNR Station to the Green Bay and White Bay areas, including Springdale, and Mining areas adjacent to Springdale.

There is a pronounced shift of the great bulk of freight from CNR coastal service in this area, to CNR rail to Badger. In excess of

250 carloads of a variety of commodities for business and mining interests terminated there in 1967, plus all L.C.L. and express freight and approximately 1800 to 200 carloads of pulpwood was shipped from there in 1967.

We believe it to be economically feasible, and desirable, that a portion of the current grants to the CNR Coastal, and branch line operations, now being phased out, be re-allocated for the purpose of providing facilities at Springdale, and extend express freight services by CNR Truck from Badger to Springdale Area.

Better control of disparity in freight rates by CNR and have rates published and available on request of any business. To effect more control by CNR over freight being damaged, due to careless storage and handling and tighter control on pilferage.

Recommend that CNR rapidly convert to containerized freight of containers of approximately 20' x 8' x 8' which can be hauled by rail, ship, or truck, and provide facilities at ports of entry and departure to handle same. This would cut damage and pilferage to a minimum, and shorten delivery time considerably.

On the whole problem it is essential that there be close liaison between government, business and transportation companies. The Maritime Transportation system, Newfoundland in particular, must be improved, and teamwork between these three will be needed to solve many of the problems involved.

## APPENDIX A-19

NEWFOUNDLAND ASSOCIATED FISH  
EXPORTERS, LIMITED  
ST. JOHN'S Newfoundland.

February 9th., 1968

Standing Committee  
On Transport & Communications,  
House of Commons,  
Ottawa

Gentlemen:

It would be appreciated by this Association if your Committee would give attention to the situation of the Dried Salt Fish Industry, insofar as its problems are concerned with transportation to the Caribbean area and South America.

A substantial part of the production of Newfoundland Dry Salt Fish is marketed in the Caribbean and South America, but due to ocean going ships loading only at such ports as Montreal, Halifax or St. John, N.B., we

have to transport all of our shipments destined for the Caribbean and South America to the aforementioned Mainland points for transshipment. This adds tremendously to freighting costs and puts the Newfoundland exporter at a substantial disadvantage with exporters in the Maritime Provinces where the ocean-going ships are loading.

At a meeting of this Association, it was decided to ask your Committee's consideration and put forward the suggestion that assistance is justified, either by subsidy direct to exporters or through the carriers of the cargo.

We would be pleased to appear before your Committee when it is sitting in St. John's.

Yours very truly,

NEWFOUNDLAND ASSOCIATED FISH  
EXPORTERS, LIMITED

MANAGER,  
(F. A. J. Laws)



## APPENDIX A-20

## BRIEF

on

behalf of the constituents of the Electoral District of Bell Island by Steve Neary, M.H.A., Bell Island.

It is respectfully submitted that:

WHEREAS Bell Island, a hard-wording happy community of over 14,000 persons until 1959, became an economic disaster area as a result of the arbitrary decision of the management of its major industry commencing in that year; and that

WHEREAS, through the combined efforts of Federal and Provincial governments, some 8,000 of these inhabitants have been relocated in employment situations elsewhere in Canada, there still remain geographically and economically marooned a hard core of non-transplantable 6,000 persons; and that

WHEREAS Federal, Provincial, and Canada Manpower authorities agree that this present 6,000 population represents a permanent total of inhabitants without any prospects for present or future business or industrial employment on the Island; and that

WHEREAS the Federal and Provincial Governments and the Premier of Newfoundland and the Member of the House of Assembly for Bell Island have reached a blind alley in every effort to re-establish the Dosco mine or to bring a new industry to the Island; and that

WHEREAS it is the isolation of the Island from the sub-continent of Newfoundland and the heavy expense of ferry service that prevents potential wage-earners among the 6,000 Bell Island population from securing off-Island employment or in-job training; and that

WHEREAS, even with the present approximately \$3,000,000 annual subsidization by the Federal Government of the Bell Island ferry service, the fare schedule is too high for Bell Island people to travel

regularly from the Island—an additional handicap for people who are least able to afford any added handicap, the people with the lowest income among the people of the province with the lowest average income in Canada; and that

WHEREAS the cost of transportation of goods and materials necessary to life, plus the added percentage mark-up by Island retailers combine to place the cost-of-living at 25-30% higher for residents of Bell Island who are captive customers of Island retailers because of inability to travel to the main Island of Newfoundland without a heavy incubus of expense; and that

WHEREAS until some permanent solution to the isolation of Bell Island is reached through the building of a causeway, a bridge, or a tunnel, the ferry service must continue at an increasing cost to the Federal Government because of the shrinking number of those able to use the ferry; and that

WHEREAS this isolation can result in nothing but capital depreciation of valuable private and government capital assets on the Island (schools, hospital, etc.); and that

WHEREAS isolation of the population can only increase from year to year the constant increase of welfare expenditures unless the population of Bell Island is given the chance to rehabilitate themselves economically by commuting to employment where employment exists; the only

SOLUTION to the existing problem with its manifold adverse economic and morale implications is for the Federal Government to follow to its natural conclusions the principle involved in its present participation of ferry service from Bell Island to the sub-continent of Newfoundland, and provide free ferry service for every Bell Islander resident properly indentified as such.

It is further submitted that:

- such ferry service is a moral obligation of a government that did in the past benefit from the taxes of the company whose disastrous decision placed Bell Islanders in their present unfortunate plight as well as from the taxes paid by those employee Bell Islanders themselves; and that
- such ferry service will open up opportunities of employment to able-bodied Bell Islanders making possible the curtailling

of relief rolls simultaneously with the addition to the Federal Treasury of taxes on the incomes of these thus rehabilitated; and that

- immediate action is urgent to avoid further spiralling of the costs of keeping large numbers of Bell Islanders in enforced non-productivity, and further erosion of the morale of the adult population with its possible contagion on the young.

Bell Island,  
Stephen A. Neary, M.H.A.

APPENDIX A-21

BRIEF

submitted by

BOWATERS NEWFOUNDLAND LIMITED

Gentlemen:

In submitting this brief we ask your indulgence for the paucity of statistical data, advancing in explanation the shortness of the time allotted for its preparation. Also for the same reason our observations must be confined to the particular interests of this Company insofar as they may be affected by your deliberations.

*Pulpwood Movement*

Your terms of reference as we understand them empower you to examine a wide range of transportation problems in all the Atlantic Provinces but we shall speak mainly of freight rates for pulpwood in carload lots for delivery to Corner Brook from various points in Newfoundland, the two most important of which are Glenwood and Jeffreys. It should be noted that the 130,000 cords of pulpwood from Glenwood that our Mill in Corner Brook consumes every year consist almost entirely of spruce and are practically the only source of spruce we have. It may not be generally known that between 35% and 40% of the pulpwood supplied to the Mill must be spruce if the quality of our newsprint production is to remain competitive. At Jeffreys, on the other hand, the planned annual cut of 150,000 cords of fir is designed to salvage timber infested with the hemlock looper.

The volume of our pulpwood movement by rail is shown by the following tables:

Year	Cars	Revenue
1965 ....	12,804	\$1,079,940
1966 ....	14,765	1,270,572
1967 ....	11,034	948,028
1968 ....	16,000	?
(estimated)		

More than half the cost (about 52%) of pulpwood delivered to Corner Brook consists of transportation charges. Of the total 449,000 cords consumed by the Mill 280,000 will be carried by rail this year. In respect of most of this pulpwood alternate means of transport

simply do not exist. These facts alone illustrate the importance of rail freight charges to this Company.

It should be noted that in 1967 the power shortage and market conditions reduced newsprint production at the Mill with consequent lower consumption of pulpwood.

*Maritime Freight Rates Act*

It is reliably estimated that the abolition of the subsidies under the Maritime Freight Rates Act would increase the cost of pulpwood delivered to Corner Brook by ninety-eight cents a cord or an additional annual cost of \$275,000 (based on this year's cut). In addition the 20% increase would add nearly \$5,000 to the freight charges for sending approximately 2,000 tons of newsprint paper from Corner Brook to the *Evening Telegram* in St. John's and about \$4,000 more for bringing cores, wrapper, salt etc. to Corner Brook from various places in the Maritimes.

The three major recommendations regarding the Maritime Freight Rates Act which were made by the Royal Commission on Transportation in 1961 (the MacPherson Commission) are no doubt familiar to you. We trust, however, that the Atlantic Provinces Transportation Study made by the Economist Intelligence Unit in 1967 will have equal influence with you. This study, while conceding that the Maritime Freight Rates Act introduced distortion and inefficiency into the transport market disagreed that the subsidies under the Act should be withdrawn as recommended by the MacPherson Commission and asserted instead that "in the best interests of the Newfoundland economy the subsidies now granted to rail traffic between the island and the mainland should be extended to all freight, whatever the mode by which it travels."

Even when the MacPherson Commission in 1961 recommended (i) that the subsidy on movements within select territory should be withdrawn, and (ii) that the subsidy on movements out of select territory should be extended to cover all modes of transport, it still recognised that a distinction should be made in the case of Newfoundland by its



third major recommendation, i.e. that the subsidy on movements within Newfoundland and between Newfoundland and the Maritimes should be maintained for ten years after which it would be reviewed again. This, it is submitted, is an admission, undoubtedly correct but perhaps for the wrong reasons, that the Maritime Freight Rates Act should continue to apply to Newfoundland.

It might be noted here that while the total subsidy under the Maritime Freight Rates Act amounts to over \$14,000,000, less than \$2,000,000 are attributable to intra-provincial traffic in Newfoundland.

#### *Terms of Union*

The reason for the existence of the Maritime Freight Rates Act is to be found primarily in the obligations surrounding the entry of the Maritime Provinces into Confederation although it is admitted that it is not based on a Confederation pledge to those Provinces at that time. Nevertheless, the extension of the Maritime Freight Rates Act to Newfoundland was a Confederation pledge which is still valid and an obligation to Newfoundland interests. We respectfully submit that a continuing benefit to Newfoundland was intended rather than the mere amendment of the Act (which could be just as easily repealed). To hold otherwise would distort the intent of Term 32 of the Terms of Union of Newfoundland with Canada which is quoted here fully for your convenience while drawing your attention particularly to paragraph (3).

"32. (1) Canada will maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques, which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles.

(2) For the purpose of railway rate regulation the Island of Newfoundland will be included in the Maritime region of Canada, and through-traffic moving between North Sydney and Port aux Basques will be treated as all-rail traffic.

(3) All legislation of the Parliament of Canada providing for special rates on traffic moving within, into or out of, the Maritime region will, as far as appropriate, be made applicable to the Island of Newfoundland."

It would seem that some consideration would have to be given to the constitutional aspects of any proposed change affecting Newfoundland's position vis-à-vis the Maritime Freight Rates Act.

#### *Trucks*

The development of road facilities is so obviously desirable from many points of view that it requires no argument in support. Such roads would conceivably open up areas for pulpwood which would be trucked to rail points for delivery to Corner Brook. Trucking costs however are extremely high in Newfoundland. For pulpwood the cost is twenty cents per cord-mile compared with ten cents in Nova Scotia and New Brunswick and elsewhere in eastern Canada. Authority for this is the Forestal Forestry and Engineering Limited "Assessment of Woodlands Operations of Bowaters Newfoundland Limited". We quote Item 22 of the summary of that report; "Company trucking experienced during 1966 indicates a unit cost of some twenty cents per cord-mile of haul compared with ten cents per cord-mile attained elsewhere in Canada."

It is our firm conviction based on experience that a forty-mile radius is the maximum tolerable economic trucking distance for pulpwood under existing road conditions and highway regulations. Obviously present costs are known to us and direct costs resulting from the abolition of the Maritime Freight Rates Act are ascertainable. It is urged that indirect costs would also be incurred by reason of increased trucking charges which would follow any increase in rail freight charges. These must, of course, be a matter for speculation. Nevertheless since our pulpwood operations involve both trucking and rail transportation, increased rail costs, which in themselves would almost be ruinous, would undoubtedly be accompanied by an inordinate increase in trucking costs. The importance of rail freight rates must therefore be stressed with more than usual emphasis—whether or not more and better roads are developed.

Any temptation to consider the abolition of the rail freight subsidies and the application of these funds to build and maintain trunk road systems must be resisted in the best interest of the economy. No doubt good arguments can be adduced in this respect but we submit that alongside the irreparable damage to the newsprint and other industries these arguments must necessarily pale into insignificance.

*Future Industrial Development*

Newfoundland seems to be on the threshold of industrial development and expansion. To what extent new industries would be adversely affected by higher freight rates is of course something we cannot estimate here. While it is a moot point that freight rate subsidies were intended to encourage industrial development everyone will agree that such development will be retarded by higher freight rates. In this connection we quote once more from the Atlantic Provinces Transportation Study of the Economist Intelligence Unit in relation to another important industry in Corner Brook.

"With freight costs for cement produced in Newfoundland being a large percentage of the cost of manufacture, it is important to keep rail rates for this product as low as possible. The price of cement in Newfoundland is effectively regulated by competition from the United Kingdom and Mainland Canada, and the price of cement produced at Humbermouth has not risen since 1952. This has resulted in enormous pressure on margins, and any rise in rail freight charges would possibly force the plant to cease operations at Corner Book."

The foregoing refers, of course, to North Star Cement Limited. Atlantic Gypsum Limited also would seem to us to be in precisely the same case. We mention these Corner Brook industries specifically but we urge consideration of industries now being established or in prospect such as the plants at Long Harbour and Come-by-Chance.

*Telephone Communications*

The requirements of a fast-growing population and changing ways in Newfoundland make it almost imperative to have proper and

efficient communication media. It is not a case of improving existing facilities, where old equipment could serve until the new is ready. By and large it is a case of providing the best modern equipment where none exists now.

Telephone services are provided by Avalon Telephone Company Limited and Canadian National Telecommunications. Broadly speaking, Avalon serves the urban areas and Canadian National serves the rest. The expansion of Canadian National's services in recent years has improved the situation but much more is needed.

Because of this lack of ordinary telephone service the use of radio-telephones has become common. These have been pressed into a service for which they were not intended and for which they are not really suitable. We would not decry the radio-telephone in its very important proper use but as a substitute for ordinary telephone service it is exasperating and expensive. Until the ordinary telephone service becomes adequate however there is no alternative to its use but we plead for some quicker licensing method instead of the present system which requires almost as much red tape as one would need to get a licence for a commercial broadcasting station.

Gentlemen, may we, in conclusion, express the hope that your undertaking will be successful. We shall look forward with much interest to the publication of your findings and conclusions.

Dated at Corner Brook, Newfoundland, this tenth day of February A.D. 1968.

For and on behalf of

Bowaters Newfoundland Limited

F. J. FitzPatrick,  
Secretary.

## APPENDIX A-22

Brief

by

Lundrigans Limited,  
D.B.L. Transport,  
Atlantic Gypsum Limited and  
North Star Cement Limited  
Corner Brook, Newfoundland  
February, 1968

## I—INTRODUCTION

*Participants In Brief*

This brief is being presented on behalf of Lundrigans Limited, of Corner Brook; its subsidiary, D.B.L. Transport, of Corner Brook and St. John's; Atlantic Gypsum Limited, a Company which it manages; and North Star Cement Limited, a Company with which it is associated.

*Objectives*

Our purpose in presenting this brief is to highlight some of the typical problems faced by industry in Newfoundland in the field of transportation. Particularly important are difficulties inhibiting the establishment of a strong transportation network, and through this the growth of secondary industry, which is vital to Newfoundland. The brief is intended to show that these problems are affected by the current application of the Maritime Freight Rates Act, and to indicate in what ways changes to this Act and other improvements in transport could be of benefit in the economic and social development of Newfoundland.

*Lundrigans Limited and  
North Star Cement Limited*

Lundrigan enterprises are a diversified group of industries which have had much to do with the current industrial and community development of Newfoundland.

Their activities began in a small way in 1933 with the establishment of a sawmill and

wood-working plant in Corner Brook by Mr. William J. Lundrigan. Today, they are active in all aspects of construction, under the auspices of Lundrigans Limited. They have built hospitals, hotels, banks, bridges, schools, a shipyard and an oil refinery, and they have also participated in the construction of the new hydro-electric development at Bay D'Es-poir. The Company operates ready-mix concrete plants at Corner Brook and St. John's, and are very active in the field of prestressed concrete and related products.

Lundrigans have established a series of trading subsidiaries specialized in building supplies, in Corner Brook, Grand Falls, and Gander. Also, a number of automotive subsidiaries under the name of City Motors have been established in Corner Brook, Gander, Grand Falls, St. John's and Labrador City.

Recently, the group acquired D.B.L. Transport of St. John's and Corner Brook, which maintains the only regularly scheduled truck service in Newfoundland. Also, Lundrigans Limited has an operating management agreement for Atlantic Gypsum Limited. This firm was among the first of the new industries built by the Government of Newfoundland after Confederation. It produces gypsum wall-board and other products, from raw materials provided by the gypsum rock mills at St. George's. Recently the firm has diversified by manufacturing styrofoam insulating board.

All told, the Lundrigan enterprises employ approximately 3000 people at the peak of the operating season.

The North Star Cement plant at Corner Brook was also one of the new industries built by the Government of Newfoundland after Confederation. It is located close to the quarries of limestone and shale which provide its raw materials. It is Newfoundland's only manufacturer of cement, an essential product for the construction and building trades. The plant has recently been expanded and modernized, and has now a capacity of 1,000,000 barrels annually.

North Star Cement Limited employs approximately 170 persons.

Lundrigans Limited and North Star Cement Limited together are playing a major



part in the current industrial development of Newfoundland. The interests which they represent have made a large contribution also to the employment and the provision of jobs and facilities in the communities of Newfoundland.

We felt it was worthwhile to give you this outline in order that you could place our activities within the Newfoundland industrial picture.

The policy of Lundrigans Limited is to diversify its interests, and it is currently investigating several types of secondary industry—something which we feel is desperately needed in order to stabilize the economy of the Province. It is largely through the eyes of the developer of secondary industry that we see many of the problems, and we appeal to the Commission to consider what should be done to make an atmosphere favourable for such industry.

At the same time, through D.B.L. Transport, we are a substantial supplier of truck carrier services. We are thus keenly aware of the forces inhibiting the growth of the transport industry, which we believe to be a key to the social and economic growth of Newfoundland. Accordingly, we invite the attention of the Commission in finding ways to strengthen this type of industry also.

## II—COMMENTARY ON LEGISLATION

This section outlines the conflicts which we believe exist between the policies affecting transportation as stated in the applicable legislation and their implementation in the Newfoundland context. As a background to the section, we have given our interpretation of the intent of this legislation in Appendix A.

### *Conflicts between policy and Implementation*

The Maritime Freight Rate Act applies only to rail shipments, thereby discriminating against other modes of transport; it does not give full competitive advantages to persons and industries as was its intent. The reasons for this are described in the following paragraph.

Under the terms of Union, the Government of Canada is responsible for the transportation link between North Sydney and Port aux Basques, all traffic moving within this link being regarded as rail traffic. As this is presently the main source of traffic movements,

the subsidies accorded to rail give it a competitive advantage over other modes of transport and prohibit free entry of other modes into the transportation industry at comparable costs. Thus the subsidy has helped to maintain the predominance of the railway in handling of freight traffic. In the case of Newfoundland, this not only acts to discourage shipments to eastern Canadian markets but will also retard provincial economic growth. The present movement of freight by rail is slow and the system of operation puts St. John's as far away from the central Canadian markets as Vancouver.

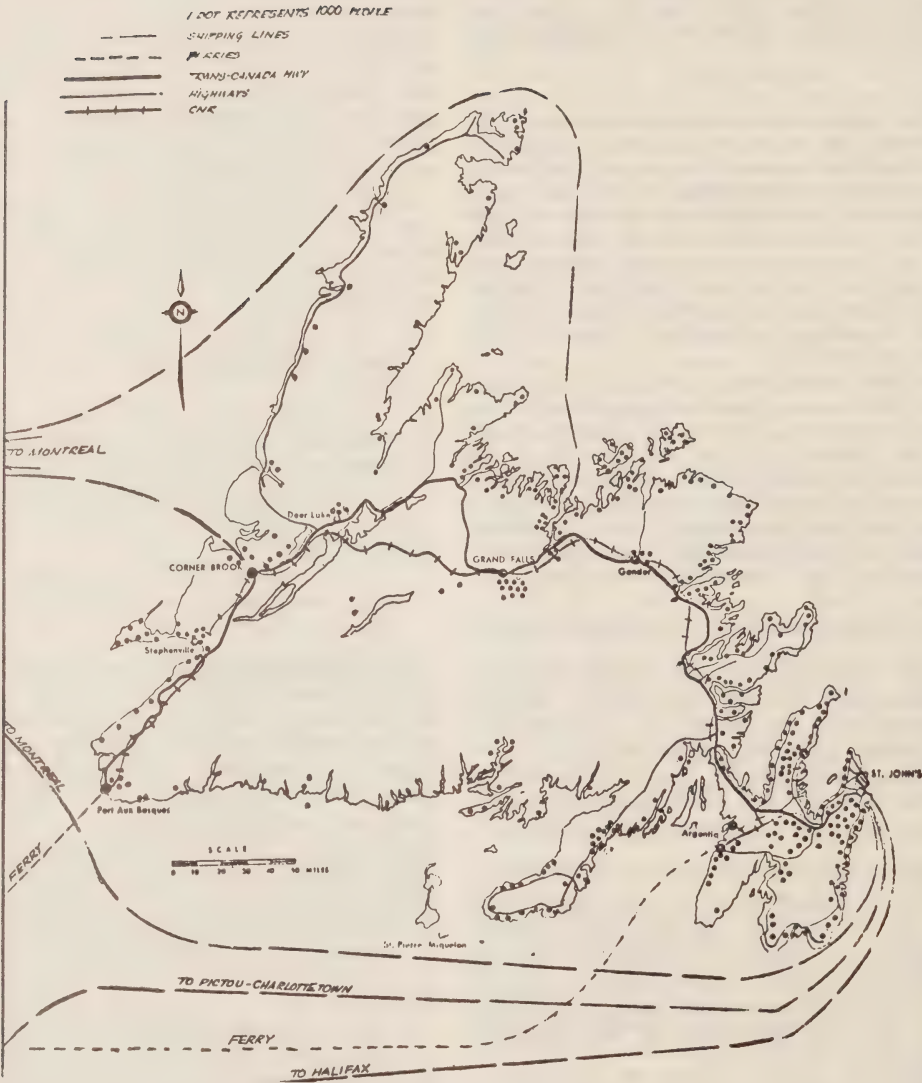
The Economist Intelligence Unit in the *Atlantic Provinces Transportation Study* observed that the current subsidy program paid to rail is discriminatory and has resulted in the following:

- (a) A number of steamship companies have withdrawn from Newfoundland Service;
- (b) Others have sought financial assistance from the Canadian Maritime Commission to save them from bankruptcy;
- (c) It has prevented in Newfoundland the development of any long distance trucking service;
- (d) A commercial transportation company was thinking of withdrawing from Newfoundland Service.

Since the original Maritime Freight Rate Act was passed, highway automotive trucking has become an extremely important complementary and competitive mode of overland goods transportation. Almost all finished goods and a high proportion of production goods and raw materials are handled by truck for all or part of their overland journey from origin to point of use in most parts of Canada. Already there has been a fairly rapid growth in trucking with the completion of the Trans Canada Highway in Newfoundland. The truck in fact is essential today for many goods movements. It is necessary for efficient railway operations, for delivery to the railway, for distribution from the railway terminal and to carry those volumes and commodities which the railway cannot handle profitably or where the railway is inherently incapable of giving the kind of service required.

At the time of Union, the most important thing was to guarantee communications with

MAJOR TRANSPORT FACILITIES  
AND POPULATION DISTRIBUTION IN NEWFOUNDLAND



the mainland, and coastwise service to outports. Even the MacPherson Royal Commission in 1962 concluded that it was more important to make the present marine and railway system more efficient and that "it may prove necessary in the short run to limit competition, to favour by subsidization or special treatment one mode against another and to do other things that would be totally unacceptable in other parts of Canada".\*

While this point of view may have had some validity seven years ago, it is seriously wide of the mark today. It is the first misconception about transportation in Newfoundland, of several which are widely prevalent today.

This idea of limiting competition and favouring one mode against another was based on small volume movements of consumer supplies to Newfoundland, no internal highway system to speak of, and the possibility of integrating the wide gauge Mainland railway with the narrow gauge Island railway by use of containers.

In fact, the volume of goods movement to Newfoundland has been growing rapidly; a widespread highway network exists; and the present railway-ferry-railway-truck system does not use containers and is far from being well integrated. With the completion of the Trans-Canada Highway across Newfoundland paralleling the railway, it is feasible to operate large modern tractor-trailers for door-to-door delivery in a fraction of the time required using the railway system. While this has been happening, an increasingly larger proportion of the population of the Island is being reached by roads, and re-settlement is bringing people from inaccessible islands and outports to accessible points, (see map opposite). The truck is becoming the most important means of internal distribution of consumer goods and construction and service supplies.

The second misconception is that the transportation needs of Newfoundland are only for supplies inbound and raw materials outbound, with the outbound traffic being handled mainly by ship. This is not the case. We have been developing some secondary manufacturing and are capable of supplying some goods to the mainland market, provided we can economically and competitively reach

that market. If Newfoundland is to maintain its economic development, we must have local secondary manufacturing and this is only feasible if we are able to tap some of the mainland markets as well.

A third misconception is that in Newfoundland the trucking mode is solely competitive; that is, it offers just another mode providing the same services as rail, ship, and air cargo. This is far from the truth; it is complementary to other modes as well, and fulfills certain unique needs in transportation.

For instance, trucking represents the fastest means of moving small volumes of merchandise, next to the airplane; and usually it is cheaper than air service. This use of trucks is important in a modern industrialized economy, where inventories of goods, such as parts and accessories, become a major cost of distribution. If deliveries of these goods are solely dependent on large volume movers of goods, it is necessary to maintain much larger inventories than otherwise required. It is, for instance, quite possible to avoid stockouts through the use of trucks to make quick, small volume deliveries to meet contingencies.

Then, piggyback and fishyback operations provide another example of complementarity; in particular, where there are otherwise frequent transfers as is the case with rail-ferry-rail between Newfoundland and the Mainland. Thus, a combination of modes appearing to compete is frequently resulting in an overall cost of operations which is cheaper and more convenient than reliance on one mode only.

It is worthwhile referring once more to the Introduction to the National Transportation Act. In our opinion, the present application of the M.F.R.A. clearly is not in accordance with the National Transportation Policy defined in this Act.

The National Transportation Act of 1967 mentions that it is essential for an economic, efficient and adequate transportation system to make the best use of all available modes of transportation at the lowest total cost, and that this is most likely to be achieved when all modes of transport are able to compete. Such a philosophy is essential to the development of Newfoundland. As the population of the outports move to more concentrated centres or areas, there will be the need for a more comprehensive and efficient distribution network.

\*See Page 137, Volume II, Royal Commission on Transportation, 1961.



The integration of all modes of transportation within the context of co-operation and in the spirit of competition must be established in accord with the resources and economic development of the Province.

We wish now to consider in somewhat more detail the specific problems which we have in our own group of industries, in the context of the purposes of this hearing. This we will do in two sections:

- The problems of carriers
- The problems of industrial development

### III - PROBLEMS OF CARRIERS

We feel that there are a number of ways in which current difficulties of the trucking industry in Newfoundland could be overcome, either by amending the Maritimes Freight Rates Act or by more direct means. We shall outline some of these problems, illustrate them from our experience with D.B.L. Transport, and draw some conclusion for your consideration, in this section.

#### *Intermodal Competition*

The effect of the M.F.R.A. subsidies being granted to rail alone, has been to stifle the development of a healthy and competitive truck transport industry.

The problem of subsidized rail services competing with unsubsidized truck services has only become acute recently, as prior to 1949 there was no highway system across Newfoundland, and not until 1965 was the highway across the Island paved, to become the Trans Canada Highway.

New roads are being developed to all the major settlement areas about the Island, and thus truck delivery is becoming feasible to a high proportion of all communities. In contrast, the railway across Newfoundland does not serve any but the main urban centres. In particular, many of the outport communities to which roads have been built can only receive goods by truck service, which is essential to stimulate their industrial growth.

Truck transportation has other advantages for the Island of Newfoundland. Truck delivery minimizes the number of handlings of goods; for example, with the establishment of the ferry service to Argentia it will make little sense to load goods for St. John's onto rail, merely to have to transfer them shortly to truck for final delivery to the consignee. Also, bulk handling of such goods as cement,

flour, fishmeal, etc. could well be provided by truck, particularly since the railway has not supplied any specialized bulk handling equipment to date.

However, the truck industry in Newfoundland has not developed as expected. Since the completion of the Trans Canada Highway in 1965, only one trucker has instituted a regular schedule of common carrier freight service on the Island. (It is D.B.L. Transport.)

At the same time, interprovincial trucking to and from Newfoundland is also completely overwhelmed by the massive movements taken by the CNR. As an example, according to the E.I.U. Atlantic Provinces Transportation Study (1967), the freight volumes carried between Newfoundland and the Mainland in 1965 were 323,587 tons by CNR Gulf Ferry, but only 7,000 tons by truck. The "land bridge" concept promised in the Terms of Union is evidently working out to be a "barrier" which almost excludes trucking.

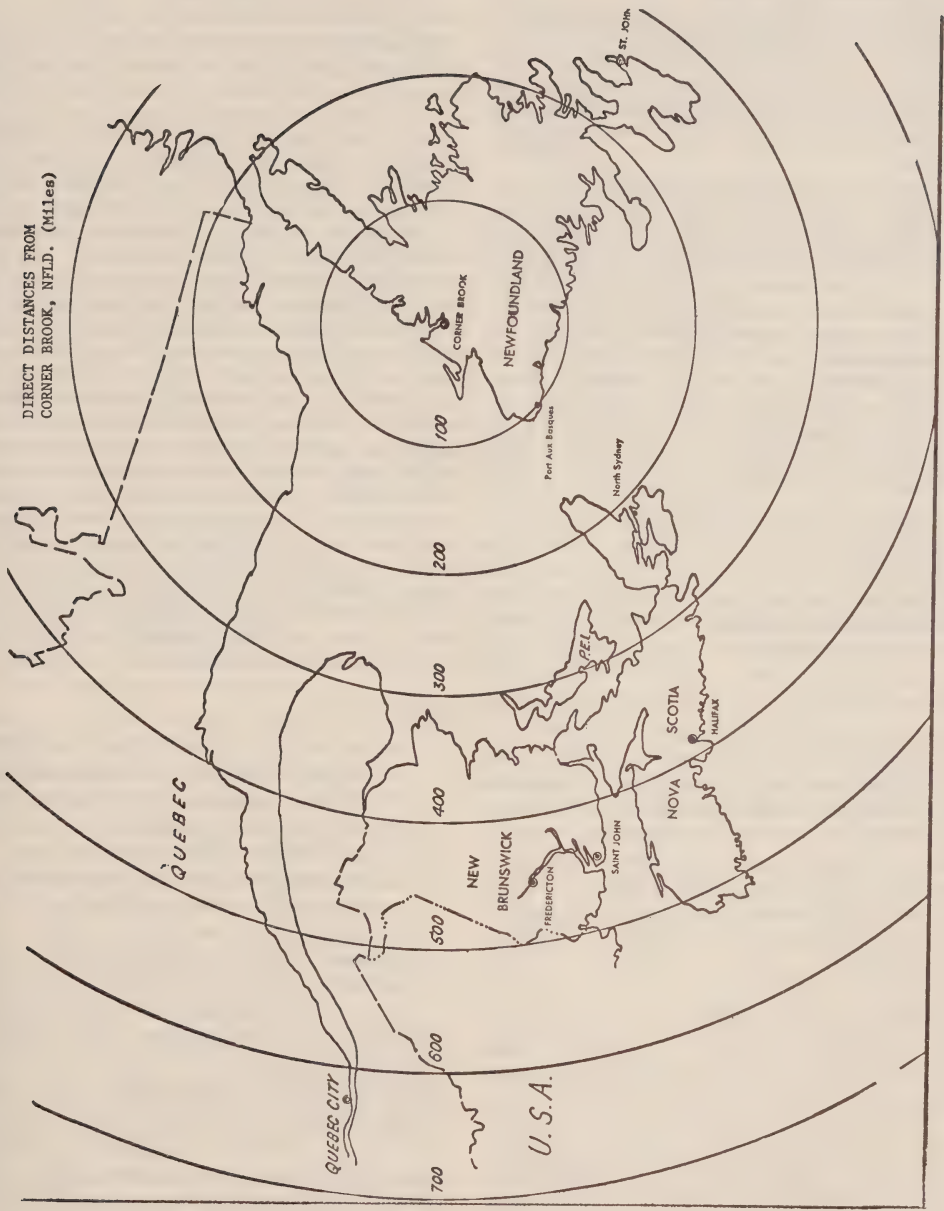
We believe that the reason why the trucking industry is not developing in a competitive way, in spite of its many complementary advantages for Newfoundland's economy, is the inhibiting effect of competing with the giant rail services, which obtain a 20% subsidy on their rates.

#### *Internal Distances*

One of the real problems in the Newfoundland setting is the long distance between certain of her major centres. Corner Brook to St. John's is a distance of 452 road miles. Corner Brook is an important centre in the manufacturing of cement, which was established there to be close to the supply of raw materials. However, for this enterprise to be viable, it is necessary for it to reach beyond the local markets.

Ordinarily, cement plants supply the needs of an area about 100 miles away (see map opposite); nevertheless, Corner Brook must ship the principal part of their cement to the Avalon Peninsula. Because of the population concentration there, there is currently little opportunity for back-haul to Corner Brook.

Also, this internal Newfoundland market for Corner Brook cement is in danger of foreign competitors from European ports, who make use of low ocean ballast rates available from ships coming to North America for bulk cargoes, in order to ship cement extremely cheaply. Under these conditions, it would be beneficial to have a sharing of



M.F.R.A. rates for other modes, in order to continue the further development of the cement industry in Corner Brook.

### *Loss of Mainland Markets*

One place where truckers on Newfoundland feel keenly the subsidized competition of the rail mode is in interprovincial movements by way of the Gulf Ferry. This has been well stated in the E.I.U. report "Atlantic Provinces Transportation Study", Volume IV, page 34, as follows:

"The rates levied on articulated vehicles longer than 34 feet are therefore considerable, and this has been one of the main factors hampering the development of interprovincial trucking service between Newfoundland and the Mainland. This is even more apparent when it is considered that a long distance truck can carry a load of freight from Montreal to North Sydney at a rate of approximately \$2.00 per cwt and then have to pay at least \$1.50 per cwt to get it across the Gulf. It is therefore no surprise that the interprovincial trucking industry in Newfoundland is still in its infancy."

Although the toll for Ferry crossing of long-haul trucks has since been reduced, the rate assessed is still much greater than cost of transporting the cargo over an equivalent highway distance on land (90 miles). We feel that the "land bridge" concept guaranteed in the Terms of Union should apply equally well to truck transport as it already does to rail. In addition, we feel that the M.F.R.A. rate subsidy should be equally available to both.

We can supply the example of Atlantic Gypsum as an industry much affected by this problem, as it is very dependent on the shipment of its products from Corner Brook to the Mainland.

### *Inadequacy of Dock Facilities*

Too often it appears that the dock facilities in Newfoundland ports are arranged without sufficient planning for future expansion and for the mutual dovetailing of all modes of transport. Adequate space should be provided for access of trucks and railcars simultaneously, and suitable equipment for loading and unloading diverse types of cargoes and containers for carriage on various modes of transport should be installed.

These problems are evident in Corner Brook; the specific difficulties there are, we understand, being covered in the brief of the local Chamber of Commerce.

### *Lack of Modern Facilities*

Currently, it is physically impossible to ship piggyback by rail, standard international containers, or three-tier automobile carriers on the Gulf Ferry service. This is one of the major difficulties for trucking to overcome in engaging in interprovincial trade. With the advent of piggyback, truckers on the Island could make use of rail facilities and could ship truckload cargoes easily from Montreal or Halifax, thus obtaining the best advantages of both modes. Piggyback service would cut down damage to cargoes and the enormous time losses that occur because of the double transfer of cargoes (from Mainland gauge rail cars to ferry, then to Island gauge rail cars). The use of refrigerated containerized trailers would also vastly improve the quality of perishable goods; they would enable a much wider range of consumer goods such as fruits and vegetables to be brought to Newfoundland, and enable Newfoundland fresh blueberries and fish to be trucked to the nearby markets of the East Coast and Central Canada. Such a trade is not practical under present conditions due to delays and multiple loadings and unloading conditions using the Gulf Ferry with rail transport.

### CONCLUSIONS

1. An extension of the M.F.R.A. subsidies equitably to all modes of transportation would encourage the development of a strong and viable network of trucking for the Island of Newfoundland.
2. An investment by the Federal Government in improved docking and handling facilities at Corner Brook so designed as to effectively utilize all modes of transport for various kinds of products, would improve the efficiency of goods distributed in Western Newfoundland.
3. Provision of a suitable ferry and loading equipment on the Gulf Ferry service to handle piggyback, standard containers, and three-tiered cars would do much to make interprovincial trucking viable and to stimulate joint use of rail and truck modes to the benefit of the economy of Newfoundland.



#### IV—PROBLEMS OF INDUSTRIAL DEVELOPMENT

Here we wish to indicate some of the problems facing the current and possible prospective industries in Newfoundland. We shall illustrate this from our own experience, and again draw some conclusions for your consideration.

##### *Transfer Losses on the Gulf Ferry*

One of the most severe difficulties involved with shipment by rail on the Gulf Ferry is the very high incidence of damage and loss. According to the E.I.U. report (volume 6, page 48), the amount of the loss and damage claims attributable to the North Sydney-Port aux Basques ferry service was \$285,773 in 1965, on a total freight handled of 413,901 tons. A very large percentage of all shipments was damaged in one way or another. The troubles included pilferage, loss of merchandise, thawing of frozen goods, and others.

Partly this is a problem of the multiple handlings required. A shipment going from Montreal to St. John's by rail would have to undergo the following steps:

- Loading onto rail at Montreal
- Transfer to ferry at North Sydney
- Transfer off ferry at Port aux Basques into smaller railway cars
- Transfer to truck in St. John's
- Final delivery to consignee

This multiple handling leads to increased risk of

- breakage, which can lead to theft
- spoilage, due to exposure
- necessary breaking of shipments because normal Island cars cannot take a full Mainland load, with attendant probability of misdirection or loss of shipment.

A limited number of Mainland cars have been put on Newfoundland gauge wheels, and when these are used, at least the breakout of carload problem does not occur.

However, the contrast with the simplicity of handling a piggy-back load is obvious. In such an operation, a cargo need only be loaded on and off once. Some of the same advantages are also found with containerized traffic by rail, truck or ship.

Considerable difficulty has been experienced with the breakage of gypsum board and the breaking of cement bags. This problem is also experienced with other building supply materials.

##### *Timing of Delivery*

Related problems also involving the Gulf Ferry are the frequent long waiting period and the uncertain delivery times which are experienced. Whereas a truck shipped over on the ferry could normally give delivery from Sydney to St. John's in two days, it takes an average of six days for a rail shipment. This is due to the two extra handlings that are required and to the waiting time for handling.

An equally serious problem is the uncertainty of delivery time because of frequent handling delays and frequent misrouting of shipments after loading into the smaller Newfoundland rail cars.

The result of both the length of delivery time and the uncertainty in delivery time is the need to tie up capital in large inventories. These inventories are frequently double the size that would be required on the Mainland for a similar product. In addition, industries must make their wants known much further ahead than normally, in order to give good service their customers.

Also, at the time that Atlantic Gypsum was supplying wallboard to the Maritimes, they had to establish a supply depot at Sydney, in order to ensure their customers of reliable delivery. A plant on the Mainland having customers the same distance away would not require such depots.

##### *Size of Market*

A number of industries in Newfoundland have been established with Government assistance, in order to provide both steady employment for the residents and needed materials for the industrialization of Newfoundland. These include the gypsum wall-board and the cement plants in Corner Brook.

These plants have been most useful in both regards, and have assisted substantially in providing materials for the extensive construction which has taken place on the Island of Newfoundland during the last decade. However, they have a much smaller potential than is normal for such plants, if only the Island of Newfoundland is considered. They require instead a wider market to be competitive in price with Mainland plants.

However, in order to seek this market, they must have cheap and reliable transportation to the Mainland. Neither plant is effectively served by the existing facilities, because of the difficulties in multiple handling of the products by rail.

On the other hand, truck transport, which could move these goods quickly, safely and reliably with minimum handling, is considerably more expensive at present. If it were granted to M.F.R.A. rate subsidy, this would go a long way towards opening up Mainland markets to Newfoundland products.

#### *Costliness of Interprovincial Trailer Truck Movement*

The ferry charges assessed on long-haul tractor-trailers bridging the Cabot Strait are much higher than the cost of travelling an equivalent distance on land. The effect of these costs on the use of tractor-trailers has a direct bearing on the feasibility of establishing certain industries in Newfoundland. The types of industry which must deliver to the Mainland by truck would include those which ship in less than carload lots to a number of small industries, most of which would not be on rail lines. Such an industrial product is styrofoam plastic, manufactured into insulating board and other products, which is a new industry recently established in Corner Brook.

The import of automobiles into Newfoundland also suffers from the high rates imposed on large size trucks, such as those normally used for transporting automobiles over a long distance. This does not seem to us to be in the spirit of the guarantee in the Terms of Union to "include suitable provision for the carriage of motor vehicles", (on the Gulf Ferry).

#### *Lack of bulk haul facilities*

There are certain products which are inherently much better suited to bulk haul than to bagged delivery. One of these products is cement. Currently bulk haul hopper cars are not available on Newfoundland service.

If cement could be shipped in bulk at competitive rates by any mode, markets could be captured on the Mainland and also more efficient service could be given to industrial consumers on the Island.

#### CONCLUSIONS

1. Extension of the M.F.R.A. base subsidy to all modes of transport would enable the transportation industry to grow in Newfoundland, with resultant strengthening of the present and potential industrial base.
2. Provision of suitable facilities at North Sydney and Port aux Basques and on the Gulf Ferry for handling piggyback and

containerized freight, can enable a wider hinterland to be served and can eliminate many delays due to loading and unloading and attendant difficulties with loss, damage, etc. It can also result in increasing the range of industries able to be established in Newfoundland, and provide a greater range of incoming consumer goods for the Newfoundland population.

3. Replacement of the current high rates levied on tractor-trailer combinations on the Gulf Ferry with a rate formula based on the cost of transporting the cargo on an equivalent highway distance, according to the "land bridge" concept, would greatly extend the field of action of Newfoundland industries, and make available in Newfoundland a wider range of raw materials and consumer goods.

#### V—SUMMARY

We believe that the ultimate intent of Canadian transportation policy with respect to Newfoundland is to promote development of its economy and to improve the standard of living of its people.

This is to be accomplished both by using transportation subsidies as a means to encourage growth, and by improving transportation services and facilities. The aim is to develop a healthy and competitive transportation network as in the other parts of Canada, and to encourage the industrialization of Newfoundland, with the establishment of suitable secondary industry in various locations, and the linking together of all parts of the Island into a cohesive and dynamic whole.

By virtue of its limited population and early stage of industrialization, Newfoundland must strive to expand the sales of its products to Mainland markets, and to provide an economical and complete service to both central and outlying districts.

We strongly urge the Committee on Transport and Communications to give careful consideration to the problems faced in Newfoundland not only by existing industries, but by potential new industries, as they relate to transportation. Transportation is one of the key areas which will have an important bearing on the competitive aspects of selling Newfoundland products on the Mainland.

We are convinced that the growth of a strong, complementary transportation net-

work in Newfoundland is necessary in order to accomplish the intent of Canadian transportation policy. Yet this process is being inhibited by the effect of the present M.F.R.A. subsidy being given to rail service alone. We believe that this rate subsidy is essential at the present stage of development of Newfoundland, but that to be equitable, it should be available to all other modes of transportation.

Serious consideration should also be given to modifying existing Gulf Ferry facilities, in order to enable the use of modern techniques in the handling of goods, such as piggyback and containerization.

An important difficulty on the Gulf Ferry service is the costliness of shipping goods by long haul trucks and tractor-trailers across the Gulf. We suggest that the Committee look into the possibility of establishing a rate based on the cost of shipping the cargo in the vehicle over an equivalent mileage of highway, in order to truly implement the "land bridge" concept promised in the Terms of Union.

Another measure which can assist Newfoundland industry would be the improvement of dock layout and facilities, which are currently inadequate.

To summarize these points, we recommend serious consideration be given to:

1. Subsidization of truck and shipping transport, equivalent to rail.
2. Improvement to Gulf Ferry facilities to allow use of modern shipping techniques.
3. Implementation of Gulf Ferry rates for truck cargoes based on the land bridge concept.
4. Improvement of dock layout and facilities.

The economic lifeline for Newfoundland lies in the North Sydney-Port-Aux-Basques Gulf Ferry service. The economy, standard of living and socio-economic position of Newfoundland are dependent not only on maintaining the existing services, but on continually striving to improve their quality and efficiency. We strongly feel that the amendment of the Maritime Freight Rate Act to meet the above conditions, a revision of the Gulf Ferry charges, and the updating of transportation facilities on the Gulf Ferry and at docks, would greatly assist the economic development of Newfoundland, to the benefit of Canada as a whole.



## APPENDIX A

### OUR INTERPRETATION OF LEGISLATIVE INTENT

A summary follows, giving our interpretation of the intent of the legislation affecting the field of transportation in Newfoundland.

#### *Maritime Freight Rates Act*

Broadly, the purpose of the Maritime Freight Rates Act as originally conceived was to strengthen national unity by lowering the cost of transportation on products from the Maritime Provinces marketed in central Canada, and by lowering the cost of internal railway movements in a region of much less industrial density than central Canada.

This act provides for a reduction in rail rates of 20% on traffic moving within the "select territory" (New Brunswick, Nova Scotia, P.E.I., Newfoundland, and that part of Quebec east of Levis, Diamond Junction and Boundary, Quebec) and a reduction of 30% on traffic moving westbound from the "select territory" to other parts of Canada. The 20% reduction applies to the total rate; the 30% reduction applies only to that portion of the rate attributable to the haul within the select territory; that is, as far as Levis, Quebec on the CNR and Boundary, Quebec on the CPR. The legislation excludes:

- (a) Traffic to and from the United States;
- (b) Eastbound traffic originating outside the "select territory";
- (c) Import traffic from overseas;
- (d) Export traffic or traffic for furtherance by water through ports west or north of Boundary, Levis, and Diamond, Quebec;
- (e) Passenger or express movements.

#### *Terms of Union*

In the terms of Union, it was recognized that Newfoundland faced special problems of transportation. Most of the population was located along the coastline, much of it inaccessible except by small boat. Newfoundland had a narrow gauge railway line linking major inland settlements stretched from Port aux Basques to St. John's. A highway system in the modern sense hardly existed. At that time, the most important thing was to guarantee communications with the mainland

and coastwise service to outports. At the same time, the economic purposes of the Maritime Freight Rates Act were to be shared by Newfoundland as a member of the Atlantic Provinces, treating the Cabot Strait as a land bridge between North Sydney and Port aux Basques.

The provisions of the Terms of Union affecting transportation include the following:

- (a) At the date of Union, or as soon thereafter as practicable, Canada will take over the following services and will as from the date of Union relieve the Province of Newfoundland of the public costs incurred in respect of each service taken over, namely

the Newfoundland Railway, including steamship and other marine services.

- (b) Canada will maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques, which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles.

- (c) For the purpose of rate regulation the Island of Newfoundland will be included in the Maritime region of Canada, and through traffic moving between North Sydney and Port aux Basques will be treated as all-rail traffic.

- (d) All legislation of the Parliament of Canada providing for special rates on traffic moving within, into, or out of, the Maritime region will, as far as appropriate, be made applicable to the Island of Newfoundland.

#### *Canadian Maritime Commission Subsidies*

When CMC considers a Canadian shipping service to be essential but at the same time not economically viable, it may subsidize in an attempt to continue the performance of this service. These subsidies are being paid to a number of private shipping services between the mainline and Newfoundland and to local ferries. The subsidies provided

by the CMC have been of value in maintaining shipping companies in Newfoundland service.

*National Transportation Act—1967*

Section 1 of the Act states the National Transportation Policy. We hereby quote:

1. It is hereby declared that an economic, efficient and adequate transportation system making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation and to maintain the economic well-being and growth of Canada, and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that having due regard to national policy and to legal and constitutional requirements

(a) regulation of all modes of transport will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;

(b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense;

(c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that

it is required to provide as an imposed public duty; and

(d) each mode of transport, so far as practicable, carries traffic to or from any point in Canada under tolls and conditions that do not constitute

- (i) an unfair disadvantage in respect of any such traffic beyond that disadvantage inherent in the location or volume of the traffic, the scale of operation connected therewith or the type of traffic or service involved, or
- (ii) an undue obstacle to the interchange of commodities between points in Canada or unreasonable discouragement to the development of primary or secondary industries or to export trade in or from any region in Canada or to the movement of commodities through Canadian ports."

The Act has since been amended. The purpose of the amendment was to protect subsidized rate levels set out in the Maritimes Freight Rate Act. It guarantees that nothing in the new act shall be construed to affect any obligation imposed upon any railway company.

The provisions of the Act are designed to give all modes of transportation as much freedom as possible to rationalize their operations and their rate structures. In particular, the railways are now much freer to compete. In the Maritimes the railways already had a competitive advantage over other modes because of the M.F.R.A.

## APPENDIX A-23

## BRIEF

submitted by

THE CHANNEL—PORT AUX BASQUES  
CHAMBER OF COMMERCE.

With the advent of new rate structures on transportation charges, we find that non-carload rates are exorbitant.

We understand that by shipping non-carload we have a special feature of having our merchandise picked up and delivered. This may be true in some centres of this Dominion, but such is not the case in Channel—Port Aux Basques. If this service is included in the rate for non-carloads, then we fail to understand why this service has not been provided.

Request for this service dates back in our files to 1961 but to date it has not been forthcoming. We request immediate steps be taken to ensure this service be provided in 1968.

We note that by doing away with the Express we have lost a service. Now that the Express and Freight is combined we find that shipments are delayed compared to when it was under the Express service. There are not enough men employed to sort non-carload traffic. Goods received one day is not sorted until the next, then there is not enough men to do it speedily. With freight and express mixed together this delays sorting of non-carload shipments. Considerable delay in getting waybills made up before pickup of goods is also a problem.

Need is urgent also for extra entrances to shed for delivery of non-carload freight. Previously Express shipments were picked up at the Express Shed. This is now closed out.

Employees are not able to give clarification of new rates.

Have considerable delay in getting goods, which are received in containers, because container numbers are not shown on waybills for non-carload shipments. This should be done in North Sydney when containers are loaded.

Shipments received via Clark Traffic to Corner Brook then C.N.R. to Channel—Port Aux Basques show Clark Traffic as shipper on waybill. Consignees are unable to identify shipments in many instances unless original shipper is shown.

With regard to carload shipments. The team track can only hold six cars. We understand that no more cars can be brought in unless there is space on this local spur. Space for six cars is not sufficient. We need space for at least fifteen cars on this local spur with wide gauge track.

Demurrage after 48 hours is impractical. For example, a box-car load of lumber has to be unloaded from car and loaded into warehouse two miles away in sixteen working hours. In the case of a small business with one truck available, this is physically impossible.

It is also noted that trucks have to cross main line to get to team track for unloading with a drop of over one foot on side of track. This causes damage to various types of goods being handled, for which the C.N.R. will not accept responsibility.

Signed...

Channel—Port Aux Basques  
Chamber of Commerce.



## APPENDIX A-24

CAPE BRETON REGIONAL PLANNING COMMISSION  
REGIONAL TRANSPORTATION BRIEF PREPARED FOR SUBMISSION TO  
HOUSE OF COMMONS STANDING COMMITTEE ON TRANSPORT  
AND COMMUNICATIONS AT SYDNEY, NOVA SCOTIA  
ON FEBRUARY 28, 1968.

## 1. General Preview

During 1968 the Cape Breton Regional Planning Commission which represents the towns of Glace Bay, New Waterford, Dominion, Sydney Mines, North Sydney, Louisbourg, the City of Sydney and County of Cape Breton, all within the area known as the Industrial Region, became concerned at the apparent steady erosion of the transportation facilities in that region.

Their concern was directed at changes in passenger train schedules, condition of railbeds and highways, the tourist industry, delays in shipments from the area, delays in arrivals and departures of passenger trains, and ultimately the recently announced new Freight Rate Structure for L.C.L. Shipments, and to some extent the carload freight rate structure recently established by the Canadian National Railways. Their concern was not so much with the fact that the changes caused inconvenience to local residents, but also with the fact that at this particular time in the life of the Cape Breton Industrial Area such changes were obviously not to the general advantage of the region in that communication apparently became more difficult, and the accumulation of changes in the region were such that at this time of constant endeavour to improve facilities and the environment, and to promote industry, they would be working against the very positive endeavours being made by many agencies.

On September 29, 1967, therefore, the Regional Planning Commission instructed its staff to investigate the situation and to prepare a Draft Resolution which would emphasize the need for another look at the transportation picture in Industrial Cape Breton, and set out the deficiencies in the facilities being offered to the general public, existing industries, and to potential industries. The Resolution was discussed by the Regional Planning Commission on October 20, 1967, prepared in

its final form, and copies were sent to all Federal, Provincial, Regional and Local politicians and agencies concerned with the upgrading of the Cape Breton Industrial Region.

On January 31st. the Cape Breton Regional Planning Commission, working in conjunction with the President of the Associated Boards of Trade called a meeting in the County Court House, Sydney, N.S. for the purpose of discussion and preparation of Briefs on Regional Transportation. As a result of that meeting, the Director of Regional Planning, Mr. W. B. Thomson, was instructed to prepare a Regional Brief consisting of copies of individual briefs submitted or to be submitted by individuals, firms or agencies in the region. It was intended that this Regional Brief would attempt to consolidate all Briefs, but at the same time each individual, firm or agency would be free to present a separate submission to the Committee.

Approximately 50 persons attended the above meeting and as a result several important points emerged which are elaborated upon in subsequent sections of this submission. In addition, several briefs were presented to the Commission subsequently, and several individuals made themselves available to the Commission for the purpose of preparing the Regional Submission.

## 2. GENERAL AND VERBAL SUBMISSIONS

A. A copy of the Resolution mentioned in Part 1 of this Brief is attached as appendix "A" for information of Committee members and others concerned. The Resolution is self-explanatory.

B. Mr. Martin Merner, President of the Steelworkers Union quoted specific instances where (a), ten freight cars were ordered and only three arrived, (b) dirty cars are frequently received, (c) cars requiring removal of ice and snow were received. He claimed a

lack of adequate equipment in Sydney to clean cars of snow and ice accumulations; as a result of car shortages it was necessary to lay off approximately 1100 members of the United Mine Workers of America for the period December 15th. and December 18th., 1967, which involved seven (7) working shifts at the mine.

The remarks made by Mr. Merner were substantiated by representatives of the two major industries in the region, viz., the Steel and Coal Companies, who both confirmed that in addition to the problems with dirty cars and lack of snow removal equipment, there was a very definite lack of power at intervals throughout the year.

The latter company stated that frequently they were beset with difficulties regarding deliveries and demurrage beyond the select territory.

C. At the meeting referred to in Part 1 of this submission, statements were made from the Chair that there seemed to be good cause for investment of Atlantic Development Board funds, or funds from other suitable sources, for upgrading and renewal of the railbed. This is a matter which was discussed by the Regional Planning Commission at one time, who were assured by representatives of the C.N.R. that the condition of the railbed was good. It may well be that the condition of the railbed is good, but, nevertheless, the rate of speed between Sydney and Port Hawkesbury is such that an alleged high-speed train takes about 3½ hours for a journey which, by road, is only 88 miles and can be done in less than two hours. There would appear to be a need, therefore, for realignment and regrading of sections of the line as part of the industrial investment required to make the area more attractive and more efficient for potential industries.

D. On many occasions during the past two years local Boards of Trade, the Regional Planning Commission, and the Director of Tourism, have commented upon the inadequacy of existing highway facilities, particularly the condition of Trunk No. 4 between Sydney and Port Hawkesbury. This is not a high-speed—all weather highway and here again the need for Atlantic Development Board funds to improve this highway would be of particular advantage to the area and encourage a greater flow of tourist traffic to and within the region. Surveys taken in the summers of 1960 and 1964 confirm that only three vehicles of every ten which cross the Causeway come to Industrial Cape Breton.

E. During the above discussion it was suggested that "designated areas" should also have an adequate, efficient and punctual passenger service, and if necessary, such a service should be subsidised in these areas to improve regional attractiveness and the mobility of industrial functions.

F. The Chair also raised the desirability of extending the provisions of the Maritimes Freight Rate Act to the Trucking Industry. This has already been mentioned in other reports on Transportation.

G. Some concern was expressed at the facility being offered to the railways, whereby non-carload rates can be applied without approval of the Canadian Transport Commission.

H. The Chair also wished to emphasize the imbalance of freight movements, e.g., box cars enter the region fully loaded and leave the region empty. The same situation prevails with regard to road transportation. This particular situation can cause distress under the new legislation.

I. There was brief mention of the possibility of using other forms of transportation in the region, e.g., Hovercraft and Hydrofoils. It was felt that these alternative modes of transport should be fully investigated by the major shippers of the region and indeed of the Maritimes.

J. Some discussion took place on the apparent inability of shippers to obtain firm and factual rates. In one case, a local shipper was advised of six different rates for the same commodity.

K. The attention of the Committee is directed to the submission by the Maritimes Transportation Commission on behalf of the Governments of the Atlantic Provinces under date December 13, 1967. This submission was made to the Minister of Transport and concerned Railway Non-carload Freight Rates.

L. Mr. J. Yazer—(Yazer Brothers, Sydney)—Reports thirty (30) cartons each containing 50 folded shirt boxes were billed ex Brockville by rail at \$36.90 on November 7, 1967. The same shipment (630 lbs.), by road (Howell Transfer) was billed at \$20.10.

### 3. Written submissions

Appendices 'B' to 'N' contain excerpts from written submissions received by the Cape Breton Regional Planning Commission and the Sydney Board of Trade from local business heads. In most cases the pertinent information has been extracted from the Briefs in



an endeavour to reduce the work of the Committee in perusing the information contained therein. The full text of the Briefs in their official form is available if required.

The following organizations or individuals submitted the written briefs which are appended:—

Cape Breton Branch—Consumers' Association of Canada

Martin Equipment—Sydney

Cape Breton Bottlers of Soft Drinks

R. H. Fillmore Funeral Home Limited—Sydney

Dominion Coal Company—Sydney

W. T. Lynch & Sons Limited—Sydney

Leith's Services Limited—Sydney

Druker Insurance Agency—Sydney

Bird Construction Products—Per Maritime Builders Ltd.—Sydney

H. H. Marshall Limited—Sydney

Atlantic Speedy Propane Limited—Sydney

J. W. Stephens Limited—Sydney

Vogue Furnishings Limited—Sydney.

#### 4. Summary

The endeavours being made by the Cape Breton Regional Planning Commission to co-ordinate the discussions and briefs submitted and discussed during the past few weeks are all directed at the need to create an atmosphere and facilities necessary to induce industry to locate in the Cape Breton Industrial Area. The Commission members feel that it is completely illogical for one arm of government to take steps which work against the measures taken by other arms and agencies to create the atmosphere and facilities necessary for industrial activity in the region. To achieve this they ask that much more co-ordination and co-operation be achieved. In addition, of course, this submission wishes, particularly, to emphasize the need to maintain low rates for transportation within and outside of the region, and to underline the need for improved transportation and communication between the major Maritime centres and the major populated centres of Canada, and within the region.

With particular reference to the submission by the Cape Breton Bottlers, the argument has been used that by suggesting the increased rate for full products the regional consumer is obliged to pay more for the product. It should be stated quite clearly

that this submission does not suggest that the rate ex Montreal be increased, but rather that the rate ex Montreal for *empty* containers should be *less* than the rate being charged for *full* containers.

February 9, 1968

C.B.R.P.C.

#### APPENDIX 'A'

#### CAPE BRETON REGIONAL PLANNING COMMISSION PROPOSED RESOLUTION ON TRANSPORTATION TO BE DISCUSSED BY THE REGIONAL PLANNING COMMISSION

October, 30, 1967

#### REGIONAL TRANSPORTATION

##### WHEREAS:

As a result of representations made to the Commission, and of personal experiences of Commission members, and also as a result of subsequent inquiries made by Commission staff, and the Transportation Committee of the Commission, it is evident that there is a need for an effective Passenger Rail link between the two major Urban Centres of Nova Scotia, and:

##### WHEREAS:

(1) Industrial Cape Breton area and the Halifax-Dartmouth area each comprises a major urban area within the Province of Nova Scotia; and,

(2) Passengers wishing to travel between these two Major Urban Centres rather than by Air or Bus are unable to do so in the most comfortable and convenient manner, i.e., by Overnight Train Service; and,

(3) Frequent delays are incurred at Truro by the return rail-liner service from Halifax and frequently passengers are deposited in Sydney in the small hours of the morning and unable to obtain onward transportation to other communities; and,

(4) coal, steel and other shipments have experienced delays due to lack of locomotives.

the Cape Breton Regional Planning Commission has given consideration to these factors



and has discussed the problem with local officials of the C.N.R. and the Board of Transport Commissioners, and now,

#### RESOLVES THAT:

(1) The Board of Transport Commissioners be requested to consider the replacement of overnight sleeper service by C.N.R. between the Cape Breton Industrial Area and the City of Halifax so that a comfortable and convenient service is available, and so that members of the public who are reluctant to travel by Air or by Road are able to travel as they wish. It is suggested that this service be reinstated on a twice weekly basis, even although it may not be economically justified. It is the Commission's opinion that the public has a right to the most convenient mode of travel without regard to economics at this stage in the development of the Cape Breton Industrial Area.

(2) the attention of the Cape Breton Development Corporation be drawn to this resolution and the support of the Corporation requested to ensure that a full and satisfactory service is maintained for the benefit of the residents and industrialists of the area who may wish to travel by surface transportation to the Capital of the Province from the Industrial Area.

(3) the attention of the Cape Breton Development Corporation be drawn to the new freight structure for L.C.L. Shipments recently established by the Canadian National Railways and emphasise that the Commission is of the opinion that increased transportation costs caused by recent tariff structure changes are not in the best interests of the development of the Cape Breton Industrial Area, even with the support given to the area by existing legislation e.g., Maritimes Freight Rate Act, etc.

(4) action be taken by the Canadian National Railway and other railways concerned to remove the delays incurred through lack of adequate power in the area, and to ensure that deliveries to and from this area are made punctually and without delay due to power shortage.

(5) The Regional Planning Commission expresses this concern to all persons and agencies involved in any way in the stabilization and improvement of the economy of Industrial Cape Breton, and emphasises the effect of recent changes and delays in the field of surface trans-

portation in the region and in the Maritimes, and that copies of this Resolution expressing the Commission's concern, be forwarded to those responsible and interested persons and agencies involved in the efforts now being made to secure economic stability in the region. The Commission members wish to emphasize that whilst they subscribe to the principal of economic justification, they do feel that this cannot be the only criteria at this time in the life of Industrial Cape Breton and that a service which is not economically justified should be considered provided it adds to the potential and attractiveness of the area.

September 29, 1967

C.B.R.P.C.

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#### APPENDIX 'B'

MARTIN EQUIPMENT LIMITED  
POST OFFICE BOX 968  
SYDNEY, NOVA SCOTIA.

November 15, 1967

For quite a few years now, I have avoided using rail services whenever possible and this has stemmed from our dissatisfaction with the services provided. Damaged shipments, delays in transportation, the "couldn't care less" attitude of some employees all contributed toward the decision to avoid rail transportation.

While some shipments to us originate in Ontario, Quebec, and the central U.S., the bulk of our freight arrives at Halifax from the U.K. and this comes to Sydney by road. We found this form of transportation more convenient, more dependable, and more economical; both our competitors and customers follow the same practice. If rail freight rates have gone up, it might be worth noting that effective October 1, 1967, road transportation rates went down in the categories affecting us, so we have no cause for complaints.

It might be worth mentioning that most of our freight is in the high-density category and I suspect that the change in freight rates mainly affects shippers who have low-density products. In fairness to the railways, an

adjustment may be overdue in this category. I can recall express costs several years ago from Halifax to Sydney on a large secretarial desk were \$1.67 on a weight basis. Sydney Transfer wanted \$10.00 for the same shipment because of the space occupied. This was a more realistic figure.

If the CNR wishes to help the Maritimes, I would suggest they devise a means whereby they would be willing to move westward one ton of finished steel products for the same price as one ton of ingots providing the finished products were of the same volumetric content. I believe this would be of greater value to Sydney's economy than any other concession they could make.

Yours very truly,

MARTIN EQUIPMENT LIMITED.

(signed) J. R. Martin.

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#### APPENDIX 'C'

#### CAPE BRETON BOTTLERS OF SOFT DRINKS

February 8, 1968

It is not our intention in this brief to deal with the general freight rates coming into Nova Scotia, nor to mention the now extremely high L.C.L. rates presently in effect. We feel that these facts will be brought to your attention very strongly by those groups of businessmen who are even more directly affected by these rates than we in the Soft Drink industry.

The point we wish to make in the very strongest way possible is the glaring discrepancy in rates presently charged by the C.N.R. in the hauling of empty glass bottles from Montreal to Sydney as compared to those charged on full bottles of soft drinks carried between the same two cities.

When we in the soft drink industry in this area wish to bring in empty soft drink bottles to be filled in our own local bottling plants, (which is about every two weeks), we are charged by the C.N.R. at a rate of \$1.16 per one hundred (100) lbs. The usual weight for such a car of empty bottles is 50,000 lbs. However, it is not uncommon for such a car to weigh in excess of 80,000 lbs. This, however, does not effect the freight rate as we are still charged at the rate of \$1.16 per hundred lbs.

On the other hand a car of full soft drinks manufactured in Montreal and weighing in the vicinity of 30,000 lbs. is freighted to Sydney by the same railway on the same car at a rate of only 78 cents per one hundred lbs. This car of full product is rated under Item 655, C.N.R. Tariff CM 130-1, under which soft drinks may be shipped in an eastwardly direction from Montreal. This tariff does not apply on similar goods being shipped from Nova Scotia toward the Montreal area.

It appears that we in the soft drink industry in Nova Scotia are being penalized by the C.N.R. Freight Rate Department a total of 38 cents per hundred lbs. on our glass requirements alone, not to mention the extremely high L.C.L. rates we have to pay on all our concentrates and other ingredients required in the manufactures of our product as well as those paid on our machinery, equipment, parts, etc.

Let us for a moment compare these two cars of freight to see if there is a logical reason for such an enormous discrepancy in rates.

The car of empty bottles weigh more. Any attempt to put more than 30 to 35,000 pounds in a car of full product results in a very heavy car due to breakage. The car of empty bottles will arrive in good condition without a loss due to breakage. The car of full product must be heated and protected against damage due to frost in cold weather. The car of empty bottles requires no such care.

If these are the reasons used by the Rates Department of the C.N. Railway to arrive at a rate on full goods that is 38c. per hundred lbs. cheaper than that on empty bottles then their logic escapes us and we thank God that they are only running a railroad and not this country.

Now let us have a look at the effect that these discriminatory rates are having on our industry, our community and on our Province.

At the present time we estimate that there was about 100,000 cases of soft drinks in non-returnable bottles alone shipped into our province from Montreal last year. This has resulted in a considerable loss of work for the labour force of this province during the past year, but the trend is only starting. More and more of the big chain stores are buying their soft drinks from the big producers in Montreal who are literally using this province as a dumping ground for their surplus production at prices far below their normal selling price within their own province. Add to this the

ever growing list of Nova Scotia bottlers who find it cheaper to buy their product in full bottles, Federal Sales Tax paid from Montreal and bring it in at an extremely low freight rate, than it is to give the work to local labour and manufacture it in their own plants. The net result of such dumping of soft drinks in a very few years is the inevitable loss of these small soft drink manufacturers, and a resulting loss of employment running in the hundreds.

The loss of revenue by the Federal Government in sales tax alone at the present time runs into many thousands of dollars annually. The difference in sales tax on the Montreal selling price and the local selling price of the same product is about 10c. per case. The provincial government also loses revenue on the retail sales tax.

The net result of such dumping of surplus production, both in non-returnable bottles, and in cans on our local markets, aided and encouraged by unjust and discriminatory freight rates can only lead to the curtailment and eventual destruction of six (6) small industries, so badly needed, in this depressed area of Cape Breton.

Respectfully yours.

CAPE BRETON BOTTLERS OF SOFT DRINKS

(Signed) R. H. Lynch.

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#### APPENDIX 'D'

R. H. FILLMORE FUNERAL HOME LIMITED  
141 Dorchester Street,  
SYDNEY, NOVA SCOTIA.

October 19, 1967

It would appear by what we are able to substantiate to date that our freight rates on caskets and materials has gone up about 50 per cent or \$5.00 per casket, which we will have to absorb or charge on the retail end of it.

We find it very hard to access this matter at the present time as we have not had enough shipments since this new rate came into effect, to give you a 100 per cent picture of the increase.

As you will realize that our materials come from Ontario, Quebec and the Maritimes, and the only thing that we can say that it looks to us that the rate increase would be 50 per cent.

Yours truly,

(signed) R. H. Fillmore.

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#### APPENDIX 'E'

W. T. LYNCH & SONS LIMITED

P. O. Box 471

SYDNEY, N.S.

November 8, 1967

We wish to point out a specific instance in regard to supplies which we bring in from Montreal. In this case the cost to land these supplies here in Sydney Via C.N. Freight has risen approximately 70 per cent. Such an increase in transportation costs is prohibitive, and certainly represents a definite added cost to the price structure of our goods, which will have to be passed on to the consumer.

Yours very truly,

W. T. LYNCH & SONS LTD.

(signed) Lorne A. Higgins.

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#### APPENDIX 'F'

LEITH'S SERVICE LIMITED

273 TOWNSEND STREET

SYDNEY, NOVA SCOTIA.

October 2, 1967

In our own instance, to take one of our products only, namely, ceramic wall tile, price has increased in freight over 100% or representing a net increase to ultimate consumer by 20% because of cartage charges and additional taxes. Where we have numerous contracts involved, this will mean that our firm will have to absorb these additional costs as we see no way in which we can charge general contractors or the ultimate consumer for these increases.



We were never given any indication that freight rates would increase and therefore, we were never able to protect ourselves in our contract tendering. The foregoing holds true for our firm and therefore must hold true for all general contractors and sub-contractors as well as suppliers who have made firm quotations on projects. It may further be said that in the construction field all prices must increase and perhaps increase to an extent where work may be curtailed in our area.

Yours very truly,  
LEITH'S SERVICES LTD.  
(Signed) Bernard A. Leith

APPENDIX 'G'

DRUKER INSURANCE AGENCY  
327 Charlotte Street  
SYDNEY, N.S.

October 16, 1967

Since car parts prices will be affected by the new freight rate structure, it will certainly affect the cost of car insurance. Likewise, since building products will increase in price, everytime there is a fire (or windstorm, etc.), the cost of repairs will be greater, and therefore there will be an increase in the cost of the average property insurance claim. Ultimately, of course, it will be reflected in the premium structure.

(Signed) Auvie Druker.  
DRUKER INSURANCE AGENCY.

APPENDIX 'H'

BIRD CONSTRUCTION PRODUCTS,  
PER: MARITIME BUILDERS LIMITED,  
SYDNEY, N.S.  
TO OUR CUSTOMERS

October 20, 1967

On September 5th, 1967, the Canadian Railway Companies implemented new rates, rules, practices and conditions applicable to all express and less-than-carload shipments. In effect, the previous express, cartage and

less-carload departments have been combined into one department, and one schedule of tariffs now applies to all less-carload shipments.

It is now apparent that these new increased express rates on products that were formally shipped L.C.L. freight at a much lower rate substantially affect our landed costs of construction products. Since September 5th, we have studied and considered several ways in which to incorporate this added cost into all of our price lists and/or shipping policies. We have decided not to change our price lists but rather to change our shipping policies. Therefore, effective October 20th, 1967, these policies will be in effect:—

1. All Bird Construction products carried in stock at our warehouses will be F.O.B. those warehouses.

2. All Bird Construction products not carried in stock at our warehouses will be shipped direct from the manufacturer and will be priced F.O.B. manufacturer's plant.

We regret the need to adopt this policy, but wish to assure you that its adoption has been dictated by circumstances over which we have no control.

Yours very truly,  
J. W. BIRD AND COMPANY LIMITED  
(Signed) Karl R. Linton  
Administrative Manager.

APPENDIX 'I'

H. H. MARSHALL LIMITED  
Wholesale Newsdealers,  
SYDNEY, N.S.

February 5, 1968.

Canadian National Express has been getting tougher on the small dealer for some time. Some years ago the minimum express charge was 20c., it went to 75c. in 1963, to \$1.50 in 1966, and to the Town of Inverness for example, \$3.00 on September 5, 1967.

The rates previous to the new set-up were on a graduated scale per pound when over the minimum. For example, when using the \$1.50 minimum in 1966 the rate to Inverness was \$1.90 and the charge on 80 lbs. would be \$1.52, on 81 lbs., \$1.54 and so on.

The new charges to Inverness on small shipments are—up to 25 lbs., \$3.00, from 25 lbs. to 150 lbs., \$3.20 with an additional charge for each parcel over one of 20c. What we would like to point out is that the small account with a parcel weighing say 30 lbs. has to pay the same charge as the account with a parcel weighing five times as much, (with The exception of the 20c. per parcel over one). In other words, the small operator has to pay the same for his small order as one doing five times the business.

Another example of the new rates is from Sydney to Corner Brook, Newfoundland;

Up to 25 lbs. ....\$3.00  
From 25 lbs. to 150 .....\$3.70

In this case, if a small business receives a parcel weighing 26 lbs., they have to pay 70c. for that one lb. over 25. Over the 1966 rate of \$2.35, with a minimum charge of \$1.50, the increase on this 26 lb. parcel is \$2.20. At that time you could ship 157 lbs. for the same charge of \$3.70.

When you get up to or over 300 lbs. in a shipment, the rates are reasonable, but this means nothing to the little man.

Yours very truly,  
H. H. MARSHALL, LTD.  
(signed) Cyril MacDonald,  
Branch Manager.

APPENDIX 'J'

ATLANTIC SPEEDY PROPANE LIMITED  
592 GEORGE STREET,  
SYDNEY N.S.

November 10, 1967.

While one might think a large firm like Atlantic Speedy Propane Ltd. with branches all over the Maritimes could take advantage of car load shipments this is not the case, the geographical position of each branch does not lend itself to car load shipments, each branch is singled to L.C.L. shipments, our freight is mainly ranges which comes from Carleton Place near Ottawa and water heaters and clothes dryers from Toronto.

We have always enjoyed a large volume of appliance sales in Sydney and we find the freight rate on our particular merchandise

has actually doubled and in some cases on minimum shipments the cost is up from 60 to 70 per cent which naturally has to be passed along to the consumer, we have also discovered that the large trucking firms took advantage of the C.N.R. increase to increase their own rates, I would estimate from our freight invoices that the trucking companies have adjusted their rates to approximately 10 per cent below the C.N.R. rates.

This 10 percent reduction in truck transportation has no advantage to many local firms as a shipment from Ontario has to be transferred from one trucking company to another before it gets to Sydney and in many cases this causes damage, we have one trucking firm in the Maritimes who are experiencing financial difficulties and refuse to pay damage claims.

It is most essential to our local economy that these rates be brought back to the same rates they were before the increases, the C.N.R. has the facilities in the Maritimes to cater to our shipping requirements, they also have the staff and system to take care of claims caused by shipping damages.

Yours very truly,  
ATLANTIC SPEEDY PROPANE LIMITED  
(Signed) E. R. Latimer,  
Branch Manager.

APPENDIX 'K'

J. W. Stephens Limited,  
P.O. Box 175,  
Sydney, N.S.

October 16, 1967

I would think that the change in the freight rates would increase our costs to the consumer approximately 5 per cent. This is a large increase and very serious. It is my thinking that the governments will have to be brought to light about this in a most forceful manner. I also believe that the freight rates before this increase were too high and I was hoping for a reduction instead of an increase.

Yours very truly,  
J. W. Stephens Limited.  
(Signed) J. W. Stephens,  
President.

APPENDIX 'L'

Vogue Furnishings Limited,  
267 Charlotte Street,  
Sydney, Nova Scotia.

October 16, 1967

The rates affect us differently on the items we sell, as an appliance may be of different sizes and they consider the size and shape of the container as well as the rate which may be shipped to us by the company we purchased the goods from and the same applies to upholstered goods and case goods, as well as chrome furniture, etc.

We find that there is an increase of anywhere from twice to three times the previous rates we have had to pay for transportation costs.

We may also bring to your attention that all Forwarding companies as well as the C.N. Freight Company do not appear to have a stabilized set rate which would enable us to govern ourselves accordingly.

Yours truly,  
VOGUE FURNISHINGS LTD.  
(Signed) Sam Bernick.

APPENDIX 'M'

Dominion Coal Company Limited  
Sydney, N.S.

October 19, 1967

The new tariff is a complex one but I feel it can be truthfully stated the freight rates under the new express tariff are, in most instances, double and more, that what was formerly applicable with the weight and cubic capacity of the product being transported having a very significant bearing on what shippers and receivers are now required to pay. There is no question but that the small shipper-receiver will suffer most unless the product he handles can either be disassembled or is of small proportion having relation to cubic requirement. By reducing the dimensions of an oversize piece, or combining several pieces into one of acceptable size will reduce the new rates considerably.

Insofar as our Company is concerned, most of our products move by pool car and truck, or, in carload quantities from Central Canadian points and enjoy carload rating that has been left undisturbed by this recent ruling. I might mention, however, our associate company, The Cumberland Railway Company,

will be phased out of the l.c.l. business inasmuch as pick-up and delivery are generally included in the new rates.

The Maritime Freight Rates Act was designed to place shippers-receivers in our area in a favourable competitive position with the rest of Canada. However, the inauguration of these tremendous increases in l.c.l. freight indicates that throughout the years, centralized Canada once again, benefits most in that they can move their products to the east in carload lots.

I might mention I have requested our Purchasing Department to move, whenever possible, materials by truck transport. However, I understand truck operators plan increasing their rates somewhat in line with the railways.

DOMINION COAL COMPANY  
(Signed) H. F. Murphy,  
Traffic Supervisor.

APPENDIX 'N'

A FORMAL STATEMENT ON THE IMPLEMENTATION OF HIGHER FREIGHT COSTS PRESENTED BY THE CAPE BRETON BRANCH OF THE CONSUMERS' ASSOCIATION OF CANADA TO THE CAPE BRETON REGIONAL PLANNING COMMISSION.

The prime objective of the Cape Breton Branch of the Consumers' Association of Canada is to work and speak for the consumer in this area, and any action by government or industry which affects the cost of living is a matter of grave concern. As many of our daily needs are brought in from other parts of Canada and the United States in less than carload shipments (L.C.L.), the recent change to the size density formula for computing freight costs cannot help but materially affect our cost of living, except for one peculiar instance. Certainly higher prices for clothing, particularly in childrens' sizes, light weight bulky foods, and furniture not only place a heavy burden on the individual, but would also be a matter of concern to industries planning to settle here.

For these and many other reasons, especially in the light of the present economic situation, the Cape Breton Branch of the Consumers' Association of Canada strongly urges reconsideration of the size density formula.

SYDNEY, February 6, 1968.



## APPENDIX A-25

## SUBMISSION OF THE COMMITTEE ON CONTAINERIZATION OF THE SYDNEY BOARD OF TRADE

Mr. Chairman, and members of the Canadian Parliamentary Committee on Transportation, it is a great privilege to have the opportunity of presenting a brief to your committee at this time. This brief will present the views and proposals of the Committee on Containerization of the Sydney Board of Trade concerning the part which Canada can, and must, play in the future of world transportation, and the very important part which Nova Scotia, and particularly Sydney, will play when our nation assumes this important role.

We are presenting this as a separate brief from that of the Cape Breton Regional Planning Commission because it deals with an entirely different approach to this whole matter of transportation in the Atlantic Provinces, and outlines a different approach for Canadian Transportation Policy. Because of this it was felt that it should not be included with other briefs which deal with a number of different aspects of present transportation difficulties in the Atlantic Provinces.

In presenting a new approach to Canada's role in world transportation, we feel it is necessary to adopt an entirely new concept of Canada's position relative to the rest of the world and more particularly to the more highly developed areas of the world. I would ask you, therefore, to look at this map, which I have brought to illustrate the point.

You will notice that this map is projected in such a way as to show North America as the central portion of the world with Russia, Japan, China and other portions of the far east immediately adjoining it on the west; Central and South America to the south; Africa, the Mediterranean and Middle East to the South East and Europe to the East. North and East around the Scandinavian countries lie Northern Russian Ports.

But for our purposes we will consider that all of these areas look inwards to North America as the center of the world. Using this concept you will notice that the outer fringes of the east and west sectors consist of the vast area of Asia, made up of

Siberia, Mongolia and the northern parts of India and Tibet, which are to a large extent both sparsely populated and relatively undeveloped. In other words, if we look at the developed and developing portions of the world, we are ideally equipped to be the inter-connecting link between the various trading nations of the world.

From the earliest days of history, the major transportation link between countries has been ocean travel. From early history also, it has been felt that water transportation was the cheapest possible method of getting goods from one country to another, even if goods were being taken from the east coast to the west coast of a continent, and, of course, until recent years this was very valid. However, with the development of land transportation systems, particularly high-speed trans-continental land transportation systems, it can now be shown that a combination of sea-land and sea-land-sea transportation, using modern techniques, can be much cheaper and certainly a great deal faster than the type of water transportation that has been used for many years.

This is particularly true when it is realized that the major water-ways which permit inter-continental travel without sailing around the extremities of the southern continents, namely the Panama Canal and the Suez Canal, require shipping to follow a long and tortuous route which adds greatly to the time factor involved in shipments. In addition the political difficulties which interfered with the free passage of ships through the Suez Canal in recent years are well known and the technical limitations, and to some extent possible instability of the political situation, in the Panama Canal zone are also forcing shipping interests to consider other alternatives to this Central American World Transportation link.

Canada is noted throughout the world for the stability of its Governmental system and for the moderate and responsible attitude of its people to the rights of anyone with whom they deal. If, therefore, any country

is to assume the very important role of being the inter-connecting link in this vast world transportation system, I believe it can be safely said that Canada would have greater acceptance in attempting to assume this role than any other country in the world.

The concept that land travel, particularly transcontinental land travel, can be not only a great deal quicker, but cheaper than water transportation is now being discussed under what has become known as the Land Bridge System of transportation. This system has evolved from the comparatively new method of transporting goods in standardized containers known as containerization of cargo. This provides for the handling of goods in specially constructed containers which can be transported equally well on ships, trains or trucks. This means that a container shipment originating on one continent can go by ship to a Canadian port to be unloaded there onto a railway car, be transported across the North American continent to the opposite coast, be loaded on another ship there and go across the ocean to another continent, without the container being opened.

The advantages and economies of this system are obvious and in particular involve standardized handling procedures and equipment and virtual elimination of pilferage.

What can make this concept both cheaper and quicker is the use of unit trains, made up of many cars which will proceed non-stop from coast to coast or coast to major traffic centres, except for re-fueling and any other technical requirements.

It can be readily recognized in this system that all of the cargo will not be destined to go across the country and out to another continent, but will be consigned to destinations within the continent, more particularly in the central or more populated section of the country. It will also readily be recognized that this central section of the continent, and indeed all portions of the continent, will have cargo to go from present production facilities to either coast. It follows that there would be a considerable inter-change of traffic going east and west to and from major Canadian Railway Centres and also north and south to major centres of the United States. In this sense the Canadian Railways would assume the major trans-continental transportation role in North America, both for Canadian traffic, and for United States traffic.

You may ask why Canada could assume this role rather than United States. The answer to this is that Canada has a unified railway transportation system from coast to coast, whereas the railway system in the United States is fragmented with a number of different lines. This makes it rather difficult to establish a proper coast to coast unified transportation system to handle through traffic technically and at an economical cost.

You may ask why we consider that Canada is best suited to assume this role and we would draw your attention again to the map and the geographical positions which it shows. You will notice that Vancouver is the closest major port to Japan, which is the main trading nation of The Orient and also to China which is very nearby. If you will look also at Nova Scotia, and particularly Sydney, you will find that due to the curvature of the earth and the shape of the North American continent, we are the closest North American Port to Europe, The Mediterranean and a good part of Africa. In addition, Nova Scotian ports are closer to South America than is New York. This means that any direct inter-continental link by sea would best be centered on Nova Scotia, since it contains the closest North American Port to the majority of the major trading centres.

Consider for a moment, a world transportation system which would be centered on Nova Scotia and notice the benefits which would accrue to most world transportation due to the setting up of the major switching point of world traffic here.

It has already been pointed out that we have the closest North American Ports to the continents bordering the Atlantic Ocean. But equally important, we have the best suited ports to take advantage of the new Land Bridge Concept of transportation, using containerized shipments since they are directly linked with the Canadian Trans-Continental Railway system. This would provide fast efficient transportation for goods coming to and from the other continents to North America and coming from the other continents across North America to and from The Orient.

The new type of sophisticated specialized containerized ships which are being developed at the present time depend for their profitability on the quickest possible turn-around time on a trans-ocean round trip. Since Sydney is the most centrally located North American Port, a full scale containeri-



zation facility set up in this harbour would be in the best position to provide this.

It is our understanding that the major shipping companies are looking to an operation which would provide a weekly service from Europe, and other points, to North America with two ships. This would be possible using Sydney Harbour, whereas it would be very difficult if a port anywhere else but in Nova Scotia were used. The time factor would make the use of any other Canadian Port very difficult to use if the two ship, once-a-week service is to be maintained, having regard to possible delays on the trans-Atlantic voyage.

It is natural that we should impress upon you the desirability of using Sydney Harbour as the Eastern Terminus of the Canadian Land Bridge containerization transportation system, but we feel that it warrants this position on its merits. You can see also that establishing this terminus here would be the single most effective catalyst to promote industrial development in Cape Breton and the Atlantic Provinces, that is available to us.

A very erroneous impression has been created that Sydney has a serious ice problem during the spring months. Many years ago this may have been warranted, but in recent years and particularly since the use of Sydney Harbour as the base of operations for the Canadian Icebreaker Service, winter conditions have posed a very minor problem for shipping in and out of Sydney Harbor. As a matter of fact, in several of the past ten years, there has been no problem whatsoever, and in the other years the problem was of a very minor nature. A copy of a recent report from the Ice Control Central Office in Halifax is attached to this brief as Appendix A.

One requirement of a full scale containerization port of this magnitude is the availability of suitable land adjacent to deep water and with availability of proper rail facilities, as well as access to major highways. At Point Edward, on Sydney Harbour, north of the Industrial Park which is presently being established, there is an area of land which is ideally suited to this purpose and which could be developed into a full scale containerization facility at a comparatively small cost.

The Harbour itself is well suited to the type of shipping which our research indicates will be used for containerization shipping traffic, namely ships of from 25,000 to 35,000 tons. It has a controlling depth at the mouth

of 38 feet at low tide with greater depths than this available over a large area of the harbour and within 500 feet of the proposed site of the major installation.

Mr. Chairman and members of the Transportation Committee, this plan is a bold new concept which can catapult Canada into the forefront of the trading nations of the world more quickly and dramatically than any other single development in the foreseeable future. You can readily see the ramifications of the successful development of this concept, as far as transportation costs in the Atlantic Provinces and across the whole country are concerned. The increased volume of business which would be carried on the Canadian National Railways system would have to result in great benefits to the efficiency of the system and consequently result in greatly reduced transportation costs which could revolutionize the whole Canadian Transportation picture.

Using the containerization system and the Unit Train concept, it can readily be seen that the disadvantages which are presently inherent in the Atlantic Provinces distance from market could be substantially reduced, if not eliminated. We would be getting the benefits of a rate structure which is based on the type of volume which is presently carried in the Ontario-Quebec areas, and a speed of transportation which would make our goods available to the central market in 24 hours.

Our Committee has held discussions with officials of the Canadian National Railways, The Department of Transport, The Atlantic Development Board, Canadian Shipping Companies and with a Canadian manufacturer of container systems. In addition we have discussed it with management consultants working on Industrial Development projects in the Atlantic Provinces, have had correspondence with the various Ministers of the Cabinet who are concerned with this type of development, the Director of the Maritimes Transportation Commission and the President of the Canadian Transport Commission. We feel that we have presented this case to all persons who should be interested in having this system become a reality and now we have brought the project to your committee for your consideration.

Mr. Chairman and gentlemen, your concern and responsibility as members of the Parliament of Canada is to initiate and implement those policies and developments which operate in the best interests of the citizens in the



country as a whole. We submit that the successful implementation of a Trans-Canada Transportation System embodying east coast and west coast major containerization port facilities in Canada, with a Trans-Continental Railway Land Bridge System joining them at a reasonable transportation rate per container mile would be the most constructive project which could be recommended to Parliament to promote the proper development of industry and resources in our country. We urge you to use every effort to bring together the parties concerned immediately to begin to have this plan implemented, and we offer our services in whatever way they may be used to bring this about.

We realize that before proceeding you would wish to have a properly documented study of this whole matter completed by properly qualified consultants who would investigate all of the ramifications of establishment of such a system. It is fortunate that within the past month, the Atlantic Development Board has commissioned a full scale study of the economic possibilities of the deep water ports of Nova Scotia, having regard to super cargo ships of the future carrying bulk cargo and, it is our understanding, also of containerization shipping. We have been assured that Sydney Harbor will be included in this study as well as Port Hawkesbury and Halifax and some New Brunswick ports. It is also our understanding that this study will be available by April, so that the required professionally developed information mentioned above, will be available very quickly.

However our research indicates that, having regard to cost of development of the necessary facilities and general suitability for the purpose, Sydney Harbour is best suited to development for containerization shipping as the Eastern terminus of the North American Land Bridge Transportation System.

It is our understanding that this system could be put into operation in Canada in a relatively short period of time, and that this is an advantage which we have over our neighbour to the south. Our advisors indicate that if Canada can have this facility in operation first in North America in an efficient and economical manner, then it is quite probable that we could influence and attract most of the major shipping companies to use the Canadian Ports, particularly for traffic to the Central and Western parts of the North American continent and The Orient. So there

is great urgency about getting this project underway just as soon as possible so, that the next phase, selling the shipping companies on the system as a sound business proposition, can begin.

Your committee, Mr. Chairman, would be doing a great service to Canada and effectively discharging your responsibilities as representatives of the people if you were to follow this matter through to a successful conclusion immediately upon your return to Ottawa.

Attached to this brief you will find various Appendices which give statistics and other factual information to substantiate the matters mentioned in this brief.

Thank you, Mr. Chairman.

#### DEPARTMENT OF TRANSPORT

Ice Forecasting Central,  
P.O. Box 792,  
Halifax, N.S.

Mr. A. Bruce McDonald,  
Chairman, Advisory Board,  
Regional Planning Commission,  
68 Milton Street,  
Sydney, N.S.

Dear Mr. McDonald;

Further to my letter of November 17 I have examined the periods of difficult escort in the approaches to Sydney and find the following:

1959—Escort was difficult Feb. 19-Mar. 5 but would not have stopped shipping.

1961—Feb. 12-Mar. 8 escort difficult but possible

Mar. 26—Apr. 2 shipping stopped for three days (Actually Mar. 22-24).

Apr. 9-23 shipping stopped for seven days (Apr. 7 and 13-17).

1962—Mar. 23-Apr. 2 shipping stopped for 7 days (Mar. 23-29)

1967—Apr. 10-May 5 there were two days of strong onshore pressure which could have damaged ships in the ice, 12 days of weak onshore pressure which would probably have stopped shipping unless

vessels were sturdy and there was a strong reason for forcing entry. On the remaining 14 days the area was congested with onshore pressure and shipping could progress slowly.

As requested I have examined the ice situation in the approaches to Port Hawkesbury and have the following data to report concerning only the heavy Gulf ice which has drifted down from Cabot Strait.

Periods in which penetration of ice was necessary to reach port			Date when escort would have been needed
1958	0	0	
1959	1 week		Feb. 26-Mar. 5 Ice in Chedabucto Bay and approaches
1960	0	0	
1961	8 weeks		Feb. 26-Mar. 4 Ice in Bay & approaches
1962	2 weeks		Apr. 16-23 Ice in Bay & approaches
1963	1 week		Mar. 7-14 Ice in Bay & approaches
1964	1 week		April 23-30 Ice offshore
1965	1 week		Mar. 26-Apr. 2 Ice offshore
1966	0	0	Nil
1967	1 week		Mar. 21-Apr. 2 Ice in Bay

Locally formed Young and Pancake ice has been ignored since most ocean going ships could penetrate it without trouble. The first column merely indicates the presence of any Gulf ice completely enclosing the entrance to Chedabucto Bay whether it is loose or closely packed. The second column indicates approximately when escort would have been desirable and where. Our historical maps are drawn at weekly intervals and although some of the escort periods may have been for only 3 or 4 days it would be very difficult and time con-

suming to make a more detailed breakdown. In normal winters such as 1962, 63, 64, and 65 a brief escort period is likely. In mild winters such as 1958, 60 and 66 none is needed but in cold years the period may rise to about two weeks.

Clearly there is less of an ice problem here than at Sydney,

Yours truly,  
W. E. Markham,  
Officer-in-Charge.

## APPENDIX A-26

SUBMISSION  
to the  
PARLIAMENTARY COMMITTEE  
on  
REGIONAL TRANSPORTATION  
(1968)  
by  
SYDNEY STEEL CORPORATION  
SYDNEY, NOVA SCOTIA

PART I  
INTRODUCTORY

1. Sydney Steel Corporation (formerly operated as Sydney Works of the Dominion Steel and Coal Corporation) employing approximately 3,000 is located in the Atlantic Provinces remote from the principal market area in Canada (i.e. between Montreal and Windsor, Ontario) where about 75 per cent of Canadian Steel consumption occurs.

2. Because of the great distances involved to the principal consuming region, with freight costs representing an important factor in steel marketing; to offset differences in such costs freight absorption has been a recognized method of equalizing competition between producers shipping to a particular point.

3. The Atlantic Provinces are a relatively small steel consuming area.\* If Sydney Steel Corporation was entirely dependent upon the market of the Atlantic Provinces it could only operate a few weeks each year. Consequently, to obtain an economical production volume, most of the production must be shipped into Central Canada or alternatively the world export field.

4. While it has been stated that the Sydney steel plant is advantageously situated close to a source of raw materials, the proximities to raw materials do not weigh as advantageously as it would appear in relation to plants located in southern Ontario. The fact that Cape Breton coals make poor coke present processing problems.

\*In 1966 shipments from Sydney to the Maritimes exclusive of rails and tie plates to the railways for "On Company Service" and exclusive of blooms and ingots to Trenton, was only 4.8 per cent of the total shipments.

5. It has also been stated that the steel industry located in Sydney has a more advantageous position to export markets compared with other Canadian Steel producers. While, in the past, the export market afforded the Sydney location some advantages, the increased competition which the industry has been confronting from other steel producing countries with their lower living standards, long term export credit terms and other trade policies,\* has resulted in a continual decrease in the percentage of production that is exported.\*\* Within the domestic market alone it has been difficult on occasions to compete with foreign producers and it has resulted in either increased absorptions where marginally possible in order to remain competitive or withdrawal from the market entirely. Our ability to contend with imports is difficult because of transportation differentials that we have to absorb in the first place. What was a relative advantage some years ago in selling to world markets no longer obtains and indeed in some respects has become a disadvantage when compared with other producers who can maintain their operations at a satisfactory level by disposing of a major portion of the production in the domestic market and realizing thereby a higher dollar return per ton of product than can be obtained in the export field.

6. Therefore, the prime disadvantage of the Sydney plant is the relatively long distance from that part of Canada constituting the principal steel market area. Steel producers

\*Tariff reductions on import steel as result Kennedy Round \$2.40 per ton (effective January 1, 1968).

\*\*Whereas in 1936 for example, 61 per cent of the steel shipments from Sydney were to export markets, in 1967 exports only accounted for 17.8 per cent of the total quantity.



located within this market area have the added advantage of being able to effect delivery within hours or a very few days. Additionally they possess also alternative methods of delivery to a greater degree. Moreover, the impact of motor transport and water competition\* has resulted in rate reductions to a much larger extent than has been obtained in other areas. Then too, the competitive position of the Sydney Steel industry has been further aggravated by the horizontal percentage increases in freight rates which have also contributed to upset rate relationships and forced greater absorptions in transportation costs, when that was possible at marginal net returns, in order to obtain access to the principal markets in Canada. These combinations of developments have had erosive effects on the movement of steel traffic from Sydney in an expanding economy.

7. The necessity of catering to customers on short notice, the relatively higher costs in shipping finished products from the Maritime area, and the effects of motor transport and water competition on the freight rate structure in the Central Provinces all contribute in forcing industries to establish finishing plants within Central Canada. Those plants use primary steel produced at Sydney but the semi-finished steel used by the finishing plants must bear high transportation costs resulting from the long haul from the Sydney Plant.

8. But for the Maritime Freight Rates Act the situation would have been relatively worse. Indeed, if it were not for the Act, it is very questionable if Sydney Steel operations would have been able to carry on at all and certainly not at the present scale; unless in the process the increasing level of rates would have made water transportation more attractive—as it has already done in several instances during the past few years—and it is likely to do again if rail rates are further increased.

9. What has been Sydney's experience must also be that of other manufacturing industries requiring markets larger than that offered by the Atlantic Provinces in order to be competitive—except possibly those industries that produce high valued commodities of small bulk where transportation constitutes an insignificant factor.

\*Particularly since the opening of the St. Lawrence Seaway.

## PART II

### HISTORICAL BACKGROUND

10. Undoubtedly the historical and economic aspects of the transportation problem as it affects the Atlantic Provinces will be fully developed in other submissions to the Committee. It is considered sufficient in this presentation to emphasize only certain aspects in support of Sydney Steel Corporation's case.

11. For the Atlantic Provinces to prosper they must have access to the principal markets of Canada. Because of their location it cannot be stressed too strongly that there is only one way for their industries to go to reach the large domestic markets. Industry at or near the centre have the advantage of trading in diverse directions and possess economic advantages by being adjacent to areas of vast natural resources.

12. Under the terms of Confederation a rail link between the Maritime Provinces and Canada was stipulated by Section 145 of the British North America Act. There were three main reasons behind the demand for a railway at Confederation. First, it would serve the political objective of uniting the separate Provinces into one nation. Second, it would provide Upper and Lower Canada with an all-Canadian Link with the Atlantic Ocean throughout the year and, finally, it would serve the commercial objective of linking the markets of the newly formed nation.

13. The report of the Royal Commission of Maritime Claims (1926)—“The Duncan Commission”—and the Maritime Freight Rates Act (1927), which gave statutory recognition to that Commission's findings and constituted a *declaration of policy* on the peculiar freight rate structure applicable to the territory, should form the basis or starting point for a consideration of the transportation problems that have arisen since that time with but one reservation—cognizance still has to be taken of the fact that there still remained imbedded in the rate structure the effects of Horizontal Percentage Increases on Freight Rates.

14. The Act partially corrected freight rate revisions and horizontal percentage rate increases between the years 1912 and 1927. The Duncan Commission accepted evidence that since 1912 the cumulative increase of freight rates on the Inter-colonial Railway had been 92 per cent compared with an increase of only 55 per cent for the rest of

Canada. It re-established partly the policy inherent in the construction and operation of the Intercolonial Railway; a policy which recognized that;

(a) There was an obligation on Canada to provide to Maritime manufacturers some form of assistance which would "afford to Maritime merchants, traders and manufacturers a market of several millions of people instead of their being restricted to the small and scattered populations of the Maritimes themselves."

(b) That strategic considerations determined a longer route than was actually necessary.

(c) That to the extent that commercial considerations were subordinated to national, imperial and strategic conditions, the cost of the railway should be borne by the Dominion, and not the traffic which might pass over the line.

(d) To provide assistance insofar as it is reasonably possible to do so without disturbing unduly the general rate structure in Canada.

15. It is quite obvious that due to the long distance and the unfavorable quality of existing highways between the Maritimes and the larger Central Canadian markets, manufacturers in the Maritimes rely, for the most part, on rail transportation. The early rate structure in the Maritime Provinces and the rate level established following the passage of the Maritime Freight Rates Assistance Act in 1927 was designed to permit manufacturers in the Maritimes to compete in Central and Western Canadian markets, without the distance handicap separating them from these domestic markets. While the wording of the Maritime Freight Rates Assistance Act is clear in its intent that this advantage was to be maintained, events have shown that the Act is unable to compensate for rate reductions outside the region by virtue of other carrier competition and particularly the development of truck competition in Central Canada with short hauls and a high density of traffic, the Railways have been forced to reduce a large proportion of their rates in an effort to retain traffic. In addition, the Railways have been prevented from applying the full amount of the numerous post-war rate increases to areas where competition is keen, with the result that such increases have fallen much more heavily on the Atlantic Provinces as compared to Central Canada. Obviously with the two

factors of competitive rate reductions within Central Canada and the uneven application of horizontal percentage increases, the relationship between the rates within Central Canada and the rates between the Atlantic Provinces and Central Canada has become badly distorted in favour of Central Canadian shippers. If industry is to expand, and indeed the existing ones to survive in the Atlantic Provinces, recognition must be given to the conditions as contained in the preamble to the M.F.R.A. that railway costs were not to be the controlling factor in shipping to Central Canada.

16. The railways of the United States and the Interstate Commerce Commission as well, recognize the highly complex market conditions and the competitive nature of the iron and steel business.

The Interstate Commerce Commission in a proceeding, reported as "ex parte 162", gave effect to the request made by the railways that the increase on iron and steel products be limited in all instances to a *maximum* of eighty cents (80c.) per ton and it is our view that a formula which recognizes the principle accepted by the Interstate Commerce Commission would afford a reasonable solution of our difficulties. What we suggest is that if we take as a starting point the rates applicable to the movement of our products from Sydney to other parts of Canada as those rates stood prior to the increases ordered in 1948, any increase in the freight rate on any commodity from our plant to a given point elsewhere in Canada should be limited to the amount in dollars which our competitors would be required to pay by way of increased freight upon the same commodity to reach the same point. To adopt such a formula would be a belated recognition of the principles inherent in the Duncan Commission's Report and would, in our view, conform to the spirit of Section 8 of the Maritimes Freight Rates Act.\*

### PART III

#### THE IMPACT OF HORIZONTAL PERCENTAGE INCREASES

17. Appendix No. 1 indicates a comparison of increases applied on coal and steel billets from Sydney to Montreal from April 8, 1948

\* 1949 Submission to the Royal Commission on Transportation.



to December 31, 1967. Had similar increases been applied on the steel product the present rate would be \$4.63 per ton instead of the existing \$5.60 per ton—a difference of \$0.97 per ton.

18. In Appendix No. 2 there is set forth the differential of Sydney over Hamilton on steel products to two major outlets for Sydney Steel Corporation products.

19. Appendix No. 3 outlines the actual freight paid on rail shipments alone for the period 1963 to 1967 (exclusive of Maritime Freight Rates Act reimbursement to the railways and excluding freight costs in the delivered prices of materials purchased and materials sold F.O.B. plant.) In addition to actual freight costs in Column "A", to meet the competition of the principal steel producers in the Central area, Column "B" indicates the amount of freight absorbed during that period.

The 1968 is an estimated forecast on primary steel products with the outward freight cost estimated on a PREPAID or delivered basis.

20. Consideration should also be given to freight costs on inward commodities as a result of geographical location with such costs being either an increased operating expense or passed on to consumers at the retail outlet.

21. It cannot be gainsaid, therefore, that the necessity of absorbing differences in transportation costs to the principal markets constitute a predominant factor in depressing the returns to various types of industries in the Atlantic area and as a consequence has unfortunately placed a limit on development and expansion.

22. Studies undertaken in the past have shown that the St. Lawrence Seaway would enable us to lessen the impact of horizontal increases to some interior markets, but the Seaway has also facilitated steel importation at lower laid down costs in vessels other than those of Canadian or Commonwealth registry.

23. While water transport offers an alternative means to move steel products during the navigational season and can exert a temporizing influence over further horizontal percentage increases, absorptions are none the less necessary to equalize the advantages which the increases have aggravated.

## PART IV

### THE RAILWAY AS A PRODUCTION LINE & RATE ARBITRARIES

24. Montreal and Toronto are 931 miles and 1,263 rail miles respectively from Sydney and one can realize the importance and the need for fast and reliable service. Because of the distance rail transport is vulnerable to delays arising from adverse weather conditions and delays in switching from terminal yards to plant sites. Needless to say increased co-operation and improved liaison with the railways have resulted in improved deliveries of steel shipments.

25. Steel rates from Sydney to Western Canada are currently constructed by arbitraries over the "Montreal-Toronto-Windsor" rate group and we are not proposing any changes in the recognized arbitrary structure.

26. In a previous economic study prepared by a well known firm of consultants\* for the Nova Scotia Government, the following conclusions were reached on the Sydney Steel operations:

"We anticipate that Sydney, with proper Government support will be expanded to its optimum economic level. To permit expansion of existing facilities at Sydney and to keep them operating as long as possible the Government of Nova Scotia should continue its fight to reduce freight rates which now seriously penalize it in relation to its competition."

## PART V

### TRANSPORTATION AS AN INSTRUMENT OF NATIONAL POLICY

27. The so-called "McPherson" Royal Commission on Transportation, Volume II, Appendix "A", Page 216, on Special Regional Assistance states:

"In the introduction to this volume of our Report we drew a clear distinction between the objectives of the National Transportation Policy, which we deem to be efficiency and economy in the transportation system, and the objectives of a National Policy which uses transportation to achieve certain ends. We emphasize

\* Arthur D. Little, Inc.



that the assessment of national policy objectives for economic development, political unity, social welfare or any other purpose is, in our view, a matter which very definitely is not within our Terms of Reference. We stated further that in regard to such objectives we felt our area of responsibility to be confined to making pertinent observations respecting the effects on the National Transportation Policy of national policies making use of transportation.

*We also suggested that, properly applied, transportation may be an effective instrument to use for the pursuit of national policy objectives, particularly where great distances are a limiting factor to balanced national growth.*

It is within this framework that we approach the economic case of the Atlantic Provinces for transportation assistance.

*The Case for Transportation Assistance to the Atlantic Regional Economy*

The submissions from the Atlantic Provinces put forth an argument for transportation assistance on the grounds that the economy of the Atlantic Region operates below levels of other regions of Canada. They contain an invitation to the Federal Government to eliminate general income differentials between them. They propose that transportation be used as an instrument of national policy as an integral part of any measures to this end.

Apart from the evidence on the economy of the Atlantic Provinces which was presented to us in the submission of the Maritime Transportation Commission, there is a wealth of other analytical material available from which one can draw the conclusion that the economy of these Provinces lags behind that of Canada as a whole. It is feasible, in the light of this conclusion, to use transportation assistance as one of the means of dealing with this lag.

The Atlantic Provinces themselves propose that such assistance might be given in respect of their economic position and that it should be in the form of a subvention separate from that under the Maritime Freight Rates Act. While disclaiming scientific accuracy, they set out in the submission of the Maritime Transportation Commission a method by which the

level of such special assistance might be determined. We feel that our Terms of Reference do not include the assessment of the propriety of the assistance level proposed. It is, however, clear that such a level *can* be determined, if it is beneficial to use transportation as an instrument of national policy in the region of the Atlantic Provinces.

In such a case, consideration should be given to designing the special assistance in such a way as to achieve the optimum result. It was represented to us that, 'It seems unlikely that the employment which results from the further development of the resource-based industries, from increased activity in construction, or from growth in the service trades will be sufficient to relieve the pressure of excess labor in primary occupations, including coal mining, and to provide placement for those entering the labour force with increases in population'.

It was fully suggested in the evidence presented to us 'that one of the major factors creating or causing lower levels of income in the region relative to other parts of Canada has been a lack of growth in secondary manufacturing' and 'that transportation might be used as a medium for encouraging the movement of *manufactured* goods from the Atlantic Provinces to the mass markets of Canada.'

Should it, therefore, be deemed advisable to give special transportation assistance to the Atlantic Provinces to overcome economic lag, such special assistance might well be designed to assist the movement of the products of secondary industry where it may have the greatest employment generating impact. It should be practical and administratively possible to define secondary industry for this purpose.

There remains the need for us to reiterate the criteria for such special transportation assistance. We can do no better than to refer again to the principle set out as a guide for policy in Volume I of our Report, 'When transportation assistance is introduced as a policy designed to assist a region or an industry it should be implemented so that there is no distortion introduced into the transportation industry itself.' Placing upon one mode a burden because of regional or industry transport policies will force a shifting of the

burden to some shipper unprotected by competition. Placing upon one mode of transport a benefit because of regional or industry transport policy is to give it an advantage over its competitors not dictated by efficiency, with consequent over-expansion of the favoured mode, and constraint upon the others."

## PART VI

### METHOD TO APPLY TO STEEL RATES AND OTHER PROPOSALS TO PROMOTE ECONOMIC DEVELOPMENT

28. The rate assistance that Sydney Steel requests is directed to off-setting freight rate charges "which now seriously penalize it in relation to its competition". For seeking rate parity with Hamilton in the Montreal area we are merely reaching out to the fringe of the major steel market in Canada, with such surcharges in rates to points in Central Canada beyond Montreal that are obtainable from today's rate structure.

29. Whatever form the assistance may take it should be clearly identified with the transportation factor as a matter of public policy. Our approach to alleviating our handicap is predicated upon the historical purposes behind the Maritime Freight Rates Act, however, the following are submitted from a transportation aspect to promote the economic development of the Atlantic region in general:

(a) An early revision or up-dating of the Maritime Freight Rates Act or an

alternative form of assistance providing for a 40% reduction on the proportion of the through rates from points in the area described as "Select Territory" to points beyond. (Instead of the existing 30%).

(b) A payment of 20% assistance to other modes of transport for similar movements. The payment of assistance to other modes of transport out of the "select territory" should ensure the optimum use of transportation resources through competition.

(c) Permit the trading of foreign-owned, foreign built vessels on the Canadian coastal trade. (Montreal and east thereof)

(d) The development of containerized services to major points in the Atlantic Region on a year-round basis.

(e) The railways to make available to properly licensed motor carriers the facilities of piggy-back service to all points within the Atlantic Provinces where ramps are available and future demands warrant installation.

(f) An early completion of all weather roads on main trunk highways within the Atlantic Provinces; and the construction of the so-called "Corridor Road" to shorten the existing highway route to the Montreal area.

(g) An improvement in the supply of railway equipment including locomotive power during adverse weather conditions.

RAIL FREIGHT RATES (CAR LOADS)  
FROM SYDNEY TO MONTREAL  
ALL RATES PER TON OF 2000 LBS.

APPENDIX No. 1

	Coal	+Increase or -Reduction	Steel Billets and Blooms	+Increase or -Reduction
	(a)		(b)	
April 7, 1948 .....	\$3.80		\$3.84	
April 8, 1948 .....	4.02	+ .22	4.64	+ .80
June 30, 1957 .....	4.84	+ .82	8.45	+3.81
July 1, 1957 .....	4.41	- .43	7.64	- .81
July 31, 1959 .....	4.59	+ .18	8.95	+ .31
August 1, 1959 .....	4.59		8.41	- .54
December 14, 1959 .....	4.59		8.00	- .41
May 3, 1961 .....	4.59		7.90	- .10
December 22, 1964 .....	4.59		6.80	-1.10
July 13, 1966 .....	4.59		5.60	-1.20
Present .....	4.59		5.60	

- (a) Rates are exclusive of M.F.R.A. assistance and subventions.
- (b) Rates are exclusive of M.F.R.A. assistance.

APPENDIX No. 2

COMPARATIVE STATEMENT PRESENT RAIL FREIGHT RATES ON  
BILLETS, BLOOMS INGOTS AND WIRE RODS  
RATES PER TON OF 2000 LBS.

To	From Sydney	From Hamilton	Differential Sydney Over Hamilton
Montreal .....	\$ 5.60	\$ 4.77	\$ .83
Contreccœur .....	5.40	4.99	.41



Appendix No. 3

STATEMENT INDICATING ACTUAL RAIL TRANSPORTATION COSTS AND FREIGHT ABSORPTION FROM SYDNEY STEEL FROM 1963-1967 WITH ESTIMATE FOR 1968

Date	Outward Tonnage	Freight Cost	Inward Tonnage	Freight Cost	Total Tonnage	"A"		"B"	
						Total Cost	\$	Freight Absorption	\$
1963.....	404,911	449,831.00	179,451	865,580.00	584,362	1,315,411.00	1,315,411.00	1,839,109.00	
1964.....	431,004	523,690.00	130,206	820,255.00	561,210	1,343,945.00	1,343,945.00	1,820,133.00	
1965.....	500,380	484,405.00	204,160	729,733.00	704,540	1,214,138.00	1,214,138.00	1,180,781.00	
1966.....	527,811	685,883.00	104,339	614,912.00	632,200	1,300,795.00	1,300,795.00	1,096,250.00	
1967.....	418,889	695,293.00	94,201	515,293.00	513,090	1,210,586.00	1,210,586.00	764,705.00	
1968.....	417,675 Est.	1,839,400.00 Est.						876,879.00 Est.	

APPENDIX A-27

SUBMISSION BY THE PROVINCE NOVA SCOTIA

We should like to avail ourselves of the opportunity of this visit of the House of Commons Transportation Committee, to inform the members of the Committee, of the great ground transportation problems that face Nova Scotia. To support and encourage our expanding economy we *must* ensure that our extensive highway system is further modernized, including desirable and necessary water crossings.

In Nova Scotia, the Provincial Government is responsible for all highways outside the cities and towns. We have a highway network of 15,400 miles, of which slightly over 4,000 miles are paved.

We find our highway problems divided into two main categories, each one as important as the other; i.e., trunk highways and county roads.

In order to provide a trunk system of all-weather highways, we have embarked upon a very greatly expanded program of construction. In the past few years, with Federal assistance, through the Trans Canada Highway Agreement and the Atlantic Development Board Agreements, we have sustained a yearly program of approximately \$45 million. This will enable us to provide an all-weather facility (Trans Canada Highway) from the New Brunswick border to North Sydney, with a connection from New Glasgow to the Prince Edward Island Ferry Terminal. We are also approaching completion of construction on many sections of new all-weather highway on Trunk 2 between Truro and Halifax and on many sections on Trunk 1, Halifax to Kentville, and Trunk 3, Halifax to Mahone Bay. However, with the completion of the Trans Canada Highway in 1969, and with the completion of the present Atlantic Development Board Agreements, we will be unable, starting in 1969, to sustain a \$45 million plus program. (In 1967 for instance, of the \$45 million capital program, \$25 million was provided by the Province.) We must find some means to enable us to complete our plans, for all-weather highways on Trunk 1 and Trunk 3 to Yarmouth, at the earliest possible date.

We have prepared figures which show that in order to complete Trunk 1 and Trunk 3 to all-weather standard to Yarmouth, an expenditure of \$20 million per year will be required for a period of five years. The attached list of projects sets out in some detail the trunk road program that is needed to improve the economy of *all* areas. The list of projects is not intended to show a complete order of priority.

It can readily be seen that this will be beyond the means of the Province, since, based on the \$25 million capital expenditure by the Province in 1967, the spending of \$20 million on Trunks 1 and 3, would permit an expenditure of only \$5 million per year on the remainder of our highway system.

The attached figures show also that we have the need for an early expenditure of over \$268 million on our highway system in Nova Scotia. Deducting the \$100 million 5-year expenditure for Trunks 1 and 3, from this figure, would still leave \$168 million to be found in order to provide the Province with an adequate system of ground transportation. A study of the map of Nova Scotia will quickly confirm that we are setting out only basic, modest-standard needs.

Additional projects not included in the \$268 million total, but just as necessary are.

- Fleur de Lys Trail
- Fundy Trail
- Halifax-Dartmouth area Arterial system
- Other Trunk and County to all-weather standard.

Estimated cost, these  
four items ..... \$315 million  
Total cost of our needs ... \$583 million.

The contractors in Nova Scotia have shown that they can fulfil a \$45 million annual program of construction. They have built up to this capacity within the past three years. Unless some provision is made to continue a program of this order, not only is ground

transportation going to suffer in Nova Scotia, but, in the years immediately after 1969, the road building industry in Nova Scotia will receive a severe set-back indeed.

This Brief has been prepared to show the position Nova Scotia will be in with reference to highways, by the end of the year 1969. It is

respectfully suggested that it be used as a guide-line for continued Agreements with the Government of Canada for sharing of urgently necessary highway construction in Nova Scotia.

Halifax, Nova Scotia  
February 12, 1968



NOVA SCOTIA DEPARTMENT OF HIGHWAYS

Department of Highways  
Planning Division

February 8, 1968

5-Year  
CAPITAL PROGRAM  
1969 — 1973

	1969	1970	1971	1972	1973	Total 5-years
I. Blanket Items:						
Aid to Towns, Surveys, Ferries and Docks, Grade Crossing Protection, Head Office, Calcium Chloride, Mapping etc. ....	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 7,500,000
II. Repaving .....	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
III. Bridges—smaller normal type .....	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000
IV. County Roads: including ordinary, soil cement, Asphalt Top, Suburban Streets ...	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	35,000,000
V. Trunks 1 and 3 .....	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	100,000,000
VI. Trans Canada Highway .....	3,000,000	2,000,000				5,000,000
VII. Special Projects .....	9,500,000	12,500,000	16,500,000	18,500,000	20,500,000	77,500,000
Total .....	\$45,000,000	\$47,000,000	\$49,000,000	\$51,000,000	\$53,000,000	\$245,000,000

DEPARTMENT OF HIGHWAYS  
PLANNING DIVISION

February 7, 1968

TRUNK No. 1

5-Year Plan

ALL WEATHER HIGHWAY

Halifax to Yarmouth—212 miles

1. Bedford to Bicentennial Drive, 0.6 mile  
Reconstruct to a 4-lane undivided highway .....\$ 240,000
2. Bicentennial Drive to Upper Sackville, 7.5 miles  
Complete work on this new, controlled access highway—final  
paving of road, interchanges and Beaverbank Connector .... 420,000
3. Upper Sackville to Halifax-Hants County Line, 3.5 miles  
Complete work on this new, controlled access highway—comple-  
tion of grading, stabilization and paving ..... 720,000
4. Halifax-Hants County Line to St. Croix, 14.0 miles  
Construct new, controlled access highway including grading, stabi-  
lization and paving and two grade separated interchanges .. 7,450,000
5. St. Croix to 0.3 mile west of Wentworth Road, 6.1 miles  
Complete work on this section of the Windsor By-Pass—final  
paving of road section and Trunk 14 interchange and con-  
struction of Wentworth Road interchange ..... 690,000
6. 0.3 mile west of Wentworth Road to east end of Avon River Causeway,  
1.2 miles  
Complete work on this section of the Windsor By-Pass—comple-  
tion of grading, stabilization, paving, R.R. structure and  
Windsor Interchange ..... 1,150,000
7. Avon River Causeway, 0.7 mile  
Completion of causeway to subgrade and stabilization and paving 2,800,000
8. West end of Avon River Causeway to end of A.D.B. project at  
Falmouth, 1.5 miles  
Complete work on this section of Windsor By-Pass—grading, stabi-  
lization, paving, R.R. structure, interchange and connector  
road ..... 1,000,000
9. Falmouth to Avonport, 8.0 miles  
Complete work on this new, controlled access highway—final  
paving, construction, stabilization and paving to Hantsport  
Connector and interchange ..... 1,200,000
10. Bluff Road at Avonport to Horton Cross Road, 1.4 miles  
Construction of new, parallel road on east side of Horton Bridge  
and reconstruction of existing road on west side of Horton  
Bridge and construction of Hortonville Interchange ..... 1,000,000

February 7, 1968

TRUNK No. 1

5-Year Plan

11. Avonport to Coldbrook, 16 miles	
Complete work on this new controlled access road by-passing Wolfville and Kentville—completion of grading, stabilization and paving, secondary road overpasses, interchanges west of Wolfville and at Trunk 12 .....	4,190,000
12. Coldbrook to Trunk 1 west of Kingston, 25.3 miles	
Construction of new, controlled access highway including grading, stabilization, paving, structures and interchanges .....	10,810,000
13. Trunk 1, west of Kingston to Trunk 1 near Brickton, by-passing Middleton, 8.7 miles	
Construction of new controlled access highway, including grading, stabilization and paving, structures and interchanges .....	3,660,000
14. Trunk 1 near Brickton to Trunk 1A west of Bridgetown, by-passing Lawrencetown, Paradise and Bridgetown, 9.7 miles	
Construction of new controlled access highway, including grading, stabilization and paving, structures and interchange .....	3,990,000
15. Bridgetown to Annapolis Royal via Trunk 1A, 15.5 miles	
Upgrade existing road to all weather standard .....	880,000
16. Annapolis Royal to east end of Bear River Diversion, 11.0 miles	
Construction of new controlled access highway by-passing Cornwallis and Clementsport—including grading, stabilization, paving, Allian Creek Bridge and new bridge at Clementsport .....	4,700,000
17. Bear River Bridge and Diversion, from Trunk 1 east at Bear River to Joggins Bridge, 4.0 miles	
Construction of new bridge and controlled access road diversion—including grading, stabilization, paving, bridge, secondary road structures .....	5,000,000
18. Joggins Bridge to D.A.R. near Digby, 2.0 miles	
Construction of new controlled access section, including grading, stabilization and paving .....	600,000
19. Weymouth North to Trunk 1 near St. Bernard, 4.0 miles	
Construction of a new bridge at Weymouth and a controlled access diversion including grading, stabilization, paving, bridge and road structure .....	2,500,000
20. St. Bernard to Yarmouth, 40 miles	
Up grading and improving existing road to an all weather standard, including widening of shoulders, alignment diversion, profile corrections to improve passing sight distance .....	6,400,000
Total .....	\$59,400,000



## TRUNK NO. 3

5-Year Plan

1969-1973

## ALL WEATHER HIGHWAY

Halifax to Yarmouth—226 miles

1. Prospect Connector to Yankeetown Road, 11.3 miles  
Completion of work on this new controlled access highway including final paving and construction of interchanges at Sheldrake Lake and Trunk 3 near the Prospect Road .....\$ 1,450,000
2. Yankeetown Road to Trunk 1 beyond Hubbards, 13.9 miles  
Completion of work on this new controlled access highway including final paving and construction of interchange with R.R. structure at Vinegar Lake ..... 1,150,000
3. Hubbards to Gold River, 15 miles  
Construction of new controlled access highway including grading, stabilization, paving, structures and interchanges at East River, Trunk 12 and Trunk 14 ..... 8,400,000
4. Gold River to Mahone Bay, 9.0 miles  
Up grade existing road to an all weather standard ..... 450,000
5. Mahone Bay—Bridgewater, 14 miles  
Construction of a new, controlled access highway, by-passing Mahone Bay and Bridgewater including grading, stabilization and paving; road structures, bridges and interchanges ..... 8,900,000
6. Bridgewater to east end of Mill Village Diversion, 14.1 miles  
Up grade and improve existing road to an all weather standard, including widening of shoulders and alignment and profile corrections ..... 2,100,000
7. Mill Village Bridge and diversion, 4.1 miles  
Construction of new bridge with controlled access diversion .... 1,500,000
8. West end of Mill Village Diversion to east end of Liverpool By-Pass, 3.1 miles  
Up grade and improve existing road to an all weather standard, including widening of shoulders and corrections to alignment and profile ..... 400,000
9. Liverpool By-Pass, 6.6 miles  
Construction of new, controlled access by-pass, including grading, stabilization and paving and new bridge and at grade intersections ..... 2,000,000

TRUNK NO. 3

5-Year Plan

10. West End of Liverpool By-Pass to west side of Broad River Bridge, 8.0 miles	
Up grade and improve existing road to an all weather standard, including widening of shoulders, alignment and profile corrections and new bridge at Broad River with road diversion ..	1,400,000
11. C.N.R. at Sable River to Nine Mile Woods Diversion, including new bridge at Sable River, 0.8 mile	
Build new bridge and up grade existing road to an all weather standard .....	260,000
12. Nine Mile Woods Diversion, 8.7 miles	
Completion of work on this new highway including stabilization and paving .....	700,000
13. West end of Nine Mile Wood Diversion at Jordan Falls to east end of Shelburne By-Pass, 3.4 miles	
Up grade and improve existing road to an all weather standard including widening of shoulders and alignment and profile corrections .....	450,000
14. Shelburne By-Pass, 2.7 miles	
Construction of a controlled access by-pass including grading, stabilization and paving and construction of a new bridge over the Roseway River .....	800,000
15. West end of Shelburne By-Pass to Barrington, 19.0 miles	
Up grade and improve existing road to an all weather standard including widening of shoulders and alignment and profile corrections .....	1,600,000
16. Barrington to East Pubnico	
(a) Via Oak Park Diversion, 13.6 miles	
Construction of a new controlled access highway including grading, stabilization and paving .....	3,250,000
(b) Via existing Trunk No. 3, 27.2 miles	
Up grade existing road to an all weather standard including widening of shoulders (\$70,000/mile=\$1,900,000)	
17. East Pubnico to Tusket, 16.9 miles	
Up grade and improve existing road to an all weather standard including widening of shoulders, alignment diversions and profile corrections .....	3,160,000
18. Tusket to Yarmouth, 7.5 miles	
Construction of a new controlled access highway including grading, stabilization, paving, and new bridge at Tusket .....	2,100,000
Total .....	<u>\$40,070,000</u>

## 5-Year

## CAPITAL PROGRAM

1969-1973

## SPECIAL PROJECTS

A.	1. Replace all existing narrow, steel bridges on Trunk Highways No. 2, 4, 6, 7, 8, 10, 14, 16 and 19 (29 bridges) .....	\$ 10,000,000
	2. Replace inadequate major County Road bridges .....	4,000,000
	3. Replace ferries at Grand Narrows, Little Narrows and English-town by bridges .....	9,000,000
	4. Shubenacadie River Crossing at Maitland .....	2,500,000
	5. Bridge over East River at Trenton .....	800,000
	6. Replace bridges at Lennox Passage .....	1,200,000
	7. Connecting road between Fishermans Harbour and Guysboro Shore Road .....	1,300,000
	8. Crossing at Petite Passage between East Ferry and Tiverton .....	4,000,000
	9. Trunk 2, End of Bicentennial Drive in Halifax to Trans Canada Highway at Truro, 65 miles. Construct additional two lanes etc. ....	26,000,000
	10. Trunk 4, Port Hastings to Sydney Forks, 75 miles, up grade and improve to all weather standard, including widening of shoulders and corrections to alignment and profile .....	7,500,000
	11. Trunk 4, Sydney Forks to Sydney River, 7 miles, widen to four lanes and construct to all weather standard .....	2,000,000
	12. Trunk 4, Kings Road widen to four lanes and up grade to all weather standard .....	500,000
	13. Trunk 4, Sydney to Glace Bay, 8 miles, widen to four lanes and up grade to all weather standard .....	1,600,000
	14. Port Hawkesbury Area. Construction of new controlled access highway from Port Hastings, by passing Port Hawkesbury with spur connector to Point Tupper and development area .....	6,000,000
	15. Trunk 5, Trans Canada Highway at North Sydney to Glace Bay Road, by passing Sydney, 19 miles. Construct additional lanes .....	9,000,000
	16. Trunk 6, upgrading 22 miles in Tatamagouche-Wallace area and in Port Howe—Shinimicas area .....	600,000
	17. Trunk 14, pave 15 miles between Trunk 3 and Lunenburg/Hants County Line .....	500,000
	18. Springhill Connector, stabilization and paving .....	300,000
	19. Lakeview Drive, from Dartmouth Circumferential Highway to Kelly Lake Airport Road, 8.5 miles .....	3,500,000
	20. Armdale Rotary .....	4,000,000



Special Projects (Conc.)

21. North West Arm Drive, from Herring Cove Road to Prospect Connector .....	2,500,000
22. Arterial Road from Spryfield to Trunk 3 to Bicentennial Drive, 3.1 miles .....	2,500,000
23. Pennant to Terrence Bay .....	1,500,000
Total .....	<u>100,800,000</u>

B. Additional necessary Special Projects:

1. Fleur de Lys Trail .....	20,000,000
2. Fundy Trail .....	30,000,000
3. Halifax-Dartmouth area Arterial System .....	15,000,000
Total .....	<u>\$ 65,000,000</u>

C. Trunk and County paved roads up graded to all weather standard ..\$ 250,000,000

## APPENDIX A-28

BRIEF TO  
THE STANDING COMMITTEE OF THE HOUSE OF COMMONS  
ON TRANSPORT AND COMMUNICATIONSBy  
THE PORT OF HALIFAX COMMISSION  
(a Commission of Halifax City Council)

February 15, 1968

## MESSAGE

1. The history of commerce from earliest times is replete with evidence that a busy ocean port becomes the base or focal point for the development of much allied industrial and commercial enterprise.

2. Halifax can be such a port, but its destiny rests not on the depth of its harbour, its proximity to Europe, its freedom from ice the year round or the efficiency or sophistication of its waterfront facilities, as admirable and significant as these assets may be. Its destiny rests on the cost of the over land rail haul to and from the center of the continent of the export import cargo moving over its docks.

3. Under present federal policies the cost of this overland haul is likely to increase to the point where "the through rate" (overland plus ocean rate) for shipping through Halifax will make it the most expensive port on the Atlantic coast and its traffic, now dwindling, will largely disappear.

4. If this fate were inescapable without the introduction of a massive freight subsidy (none is paid now on export import traffic), perhaps it should be accepted, and the tremendous capital investment of the C.N.R., N.H.B. and various private interests at Halifax simply written off, as has been proposed recently for so much of the industrial base of the Province.

5. The best opinion available to this Commission is that this fate is not inevitable, and

that Halifax's long overland haul to the center of the continent, hitherto its greatest liability, may be converted into a significant asset by the introduction of unit trains and other "new" rail technology for the movement of containerized general cargo. Specifically it has been said that for distances up to 3300 miles unit trains will yield lower ton-mile costs than modern container ships possessing a cargo capacity of 1200 containers (approximately the largest now being built).

6. The existence of this technology, much less its application to the Ports of Halifax and St. John or any other segment of the Atlantic economy, went unmentioned by the Atlantic Provinces Transportation Study. Nor did that study make any examination of the operations of the CNR and the CPR to determine if anything might usefully be done to lower the cost or expand the service now being provided, whether by upgrading road beds or rolling stock, or by introducing more automated equipment, or by refining rate structures, or by providing or promoting better facilities for distribution and associated operations, or by reorganizing administrative procedures, or by expanding the scope and depth of research and development, or by other initiatives.

7. With the assistance of the CNR and two private consulting firms this Commission is endeavouring to examine some of these matters which relate directly to traffic for the Port of Halifax. The results so far, while

tentative, indicate that the larger study, performed by consultants competent in railroading and the shipment of freight, could tell us much about what should be done to make the railway system of the Atlantic Region—our “Seaway”—what it should always be—the most advanced technologically and the most suited to our needs. Implementing the recommendations of such a study might initially involve some “soft” loans or outright grants by the federal government for capital improvements, or for research and development, but there appear credible grounds for believing that operating subsidies might be eliminated entirely.

### RECOMMENDATION

8. It is the recommendation of this Commission that a comprehensive examination of this nature of the operations of the two Canadian railroads in the Atlantic region, omitted entirely from the Atlantic Provinces Transportation Study, be commissioned as soon as possible to independent consultants at the expense of the federal government and that, pending the receipt and evaluation of their report, the limited suspension of the National Transportation Act to the Atlantic region provided by Section 335 of that Act be continued.

#### Honourable Members:

The Port of Halifax Commission is a commission of City Council, constituted in 1952 by Act of the Legislature of Nova Scotia to promote the growth and development of the Port in the best interests of the City (Statutes of Nova Scotia, 1952, Chapter 90, as consolidated in Chapter 68 of the Acts of 1961).

#### *1. Importance of the Port to the local, provincial and national economy*

Counting longshoremen (1,200) and freight-handlers (900) and the array of other immediate waterfront functions, the Port employs, in a good year, not less than 3,000 people in winter and 1,000 in summer. These functions include, but are not limited to stevedoring, steamship agencies, customs, immigration, National Harbours Board, railways, truckers, ship repair and maintenance, freight forwarding, sampling and checkweighing.

There are few businesses in and around Halifax that are not significantly affected by the level of port activity.

In a good year, the Port will generate revenues around \$18 million, of which general cargo (1,250,000 tons at \$13/ton) will account for about \$16.25 million.

The Port is an instrumentality of export business. Without it Nova Scotian exports would pay higher costs to get to another port, or, due to such costs making them non-competitive, would not move.

Industry, Canadian, United States, or European will be attracted to Nova Scotia, if it has a viable, year-round port. The more industry that locates because of the port, the more services, particularly sailings, the port will attract and, in turn, the more industry the port can and will service.

Hence a viable, growing port provides not only employment, but attracts and facilitates foreign trade and earns foreign exchange for Canada, triggers growth in other sectors of the economy and is a powerful developmental factor on the local and national scene.

On the other hand, a port suffering erosion of its business is a wasting and a wasted asset, both locally and nationally, for it does almost none of those things.

This latter may be the road down which the Port of Halifax will go, unless some of the remedies suggested in this brief are adopted.

#### *2. Ocean rates and rail rates to and from the Port*

Despite the lesser ocean distance to Halifax, ocean rates to all East coast ports, including St. Lawrence ports, are the same for any given commodity. These rates are set by the ocean steamship conferences, based overseas, and in no case amenable to Canadian regulation or control. On the other hand, rail rates differ with the length of haul. In the past, due to the port parity and differential structure these differentials, as between any two ports, were not great, amounting to a few cents per 100 lbs. of freight.

However, due to the rapid and uneven growth of inter-city trucking over the past ten to fifteen years, a radical change has been brought about in port rail rate relationships. For instance, in the past, the differential between the import rail rate from Halifax to Toronto on the one hand, and from Montreal to Toronto on the other was some 3 cents per 100 lbs., despite the very much greater distance from Halifax. Now the differential can be as high as 50, 60, and even 70



cents/100 lbs. This is so because trucking competition between Montreal and Toronto has forced the railways to reduce their rates between these two points. As no such competition to the railways has developed between Halifax and Toronto, firstly, the railways do not, competitively speaking, need to reduce these rates and, secondly, the very much greater distance Halifax to Toronto inhibits such reduction.

As trucking competition to the railways developed between the ports of the St. Lawrence and points West thereof, so the cost of moving cargo through Halifax to these Western points became non-competitive with the cost of moving via St. Lawrence ports and particularly via Montreal; for Halifax is still practically 100 per cent dependent on the railway to move its cargo to and from points in Quebec, Ontario, and the West.

### 3. *The St. Lawrence Seaway*

The opening of the St. Lawrence Seaway caused further erosion of the competitive position of Halifax, for the ocean steamship lines will carry cargo to Seaway ports for a rate not much greater than the rate to Halifax or Montreal. Even when inland charges from a Seaway port to destination are added, the cost of the through-haul is very much less than via Halifax.

### 4. *Winter Navigation on the St. Lawrence River*

The substantial savings in inland costs via St. Lawrence ports made shippers reluctant to use Halifax and created a demand for sailings to St. Lawrence ports even in winter. Thus commenced the erosion of Halifax's main activity, that of winter port.

This latter erosion has been little short of disastrous for Halifax and Saint John, New Brunswick. To illustrate, in winter 1966-67, we calculate that total general cargo through Atlantic Ports (Halifax and Saint John) plus St. Lawrence Ports (Montreal, Three Rivers, and Quebec) was down 121,000 tons as compared with winter 1965-66. However, in winter 1966-67, despite the overall loss, the Ports of the St. Lawrence together showed an *increase* of 91,000 tons and the Atlantic Ports together suffered a *decrease* of 212,000 tons. This represents a loss of port revenue of \$2.756 million; and, of course, this loss will be greater this winter and will continue to grow. No-one knows yet where the saturation point is.

### 5. *Bill C-120/C-231—The National Transportation Act*

More or less, the foregoing was the situation during the discussion and passage of the National Transportation Act in which we foresaw further grave threats to the competitive position of the Port and to the Atlantic economy generally.

As members of your Committee know, the National Transportation Act freed the railways to make rates within a very wide range, without reference to any regulatory authority. The theory was that competition would ensure that rail rates were maintained at reasonable levels. On the other hand, the legal requirement that they be compensatory would ensure that they were economic. As the Committee is also aware, there is some provision in the Act to provide a maximum rate for captive shippers. There is also provision for redress, if a shipper, or any person, feels that any act or omission of any carrier is prejudicial to the public interest.

The first two provisions mentioned cannot fail to affect adversely not only the Port of Halifax, but the whole Atlantic economy and the last two fail to provide any protection to Atlantic Region shippers, or to port traffic. Taking them one at a time:

#### a) *Freedom of the railways to make rates*

The Royal Commission on Transportation found that the Atlantic Region was an area of *significant railway monopoly*, and there is no doubt that this is so. Also insofar as general cargo moving between the Port and points west of the Maritimes is concerned, the monopoly is almost 100 per cent.

This leaves the competitive position of the Port in the hands of a railway having trans-continental and indeed international interests, among which the traffic moving to and from Halifax represents a minimal proportion of its total business, and which, in addition, is more or less captive to it. In these circumstances, considering the national and international competitive problems the railway has to resolve, the surprising thing is that we get as much consideration as we do.

Nevertheless, given these factors, it is obvious that the railway, in a commercial context, must give precedence to more important business and more pressing problems, and that the interests of the Port of Halifax, if and when considered, will, under existing circumstances, command a rather low priority.

To say this is not to reproach the railway, but merely to recognize the commercial realities inherent in the respective situations.

It seems however obvious, under this set of circumstances, and particularly the lack of competition for "through traffic" to and from Quebec, Ontario and the West, that rail rates between the Port and these areas, now unregulated, can be, and will be, higher than at ports with greater volumes of traffic and keen competition for that traffic between the railways and other modes of transport.

b) *Provision that all rail rates shall be compensatory (Section 334 of the Railway Act as amended by Clause 53 of the National Transportation Act)*

As pointed out above, the port parity rail rate structure ensured, despite the greater distance to Halifax, that only a small differential existed between rail rates to and from Halifax and rail rates to and from other competing ports, for example, Saint John, New Brunswick, or New York. This new provision that all rates shall be compensatory ensures (and as the Committee knows, this is a basic principle of the National Transportation Act) that the rate for any particular movement will be related, among other things, to the length of haul. While this may not, in general be a bad principle, as Halifax is, without exception, *the greatest distance* among East coast ports *from the major areas of cargo generation*, it simply means that this port, when and if this provision is fully implemented, will become the *most expensive* and therefore, *the least used* of all the East coast ports. This provision, in other words, cuts right across the port parity structure and will destroy it, substituting, in the case of Halifax, much higher rates.

For example, Halifax and Saint John, New Brunswick, despite the greater rail distance to Halifax, are, with few exceptions, still on a parity of rail rates basis. If the rates to Saint John are compensatory it is likely the rates to Halifax are non-compensatory and will therefore be increased. If, on the other hand, the rates to Halifax are compensatory, then the rates to Saint John can be reduced and still be compensatory. In either case Halifax will lose traffic; maybe all, or most of its traffic to Saint John.

Nor will it reassure us to be told (if this is what the railways say) that they have no

intention of altering port rail rate relationships, for the logic and the law of the situation are as described in the preceding paragraph, and can be applied against this Port whenever it suits the railways so to do, as will inevitably happen sooner or later.

Furthermore "compensatory" is not an absolute, and it is to be supposed that the railways, like good businessmen anywhere in this kind of situation, will calculate the *lowest* compensatory rate to meet competition between, say, Montreal and Toronto, and the highest compensatory rate, for maximum revenue, between Halifax, and Toronto.

c) *Maximum rate control (Section 336 of the Railway Act as amended by Clause 53 of the National Transportation Act)*

In order to invoke this section, a shipper must first prove that he is captive, within the terms of the Act. This may not be easy. The writer heard both Mr. Gordon, President of CNR, and Mr. Pickersgill, then Minister of Transport, state, before the hearings of your Committee on Bill C-231, that it was most unlikely that captive shippers (presumably in terms of the Act) would be found to exist. Secondly, the maximum rate will be set on variable cost plus 150 per cent for a 30,000 lbs. minimum carload. This, in our opinion, would be high for a 30,000 lbs. carload. On heavier carloadings the margin over variable cost is much greater than 150 per cent and becomes increasingly inequitable, burdensome and discriminatory against the shipper concerned.

We suspect that very few, if any motor truck competitive rail rates available to import-export traffic at the Port of Montreal are as high as variable cost plus 150 per cent. Yet these are the very rates with which rates at the Port of Halifax *MUST* compete, if Halifax is to remain a viable general cargo port under existing conditions of ocean and inland carriage.

In practice, of course, this section of the Act would never be invoked by an importer or an exporter. Any shipper who finds rates to one port higher than rates to another does not bother with such time-consuming formalities. He simply directs his traffic to the port to which, or from which he can get the lowest rates. But, of course, this means that Halifax loses the traffic.



d) *Acts or omissions of carriers, or rates established by carriers, that may prejudicially affect the public interest (section 16, National Transportation Act)*

The definition of public interest here is taken to be Section 1 of the Act, which refers to "the economic well-being and growth of Canada". It is no trick at all to show that many things, including the National Transportation Act, while they may benefit a majority of Canadians elsewhere, are at the same time adverse to the interests of Nova Scotians and frequently to a large majority of Maritimers. The Customs Tariff which protects industry in Central Canada and causes Maritimers to pay more for many kinds of goods; the St. Lawrence Seaway financed and subsidized with government money which attracts not only international cargo but industry away from the Maritimes; winter navigation on the St. Lawrence River, made possible by government icebreakers; the National Transportation Act which aggravates the Maritimes already great transportation disadvantage, etc., etc. Thus the public weal of Canada is by no means synonymous with the public interest of Nova Scotia. The public interest in Nova Scotia requires that the Port of Halifax be able to compete effectively with other Canadian Eastern and U.S.A. East coast ports; and to do that Halifax requires rail rates that compete effectively with rail rates at these other ports; but if Halifax's rail rates are, firstly, to be left at the uninhibited mercy of railway computer-operators and rate-makers, and then to be judged, in case of appeal, by the criteria set forth in Section 1 of the Act, when the public interest of Nova Scotia in this regard cannot be maintained and consequently must consider itself abandoned.

As we do not believe this was the intention of Parliament in passing this Act, we would expect some revision of this provision to reconcile the public interest, as defined in the Act, with that of Nova Scotia in rail rates and generally in remedies against other acts or omissions of carriers prejudicial to its interests.

Again, however, insofar as the Port is concerned, no shipper would bother to invoke this section. He would simply direct his cargo to another port, maybe Canadian, maybe in the U.S.A., at which the rates did not suffer from the prejudicial factors which would have formed the subject of complaint under

this section. Again of course, this Port would lose the traffic.

e) *Recapitulation: factors making the Act, as it now stands, inimical to the interests of the Port of Halifax.*

In our opinion the freedom to make rates granted to the railways, the lack of trucking competition between the Atlantic Region and points West thereof, the obligation placed on the railways that all rates must be compensatory, the ambivalence of this latter word, the lack of protection for shippers in fact captive to the railways (whether they are or not under the Act) and the lack of any practical basis of appeal against rates that could further and gravely erode port business, and/or lack of provision for redress of acts or omissions of carriers, or of rates published by carriers, that may prejudicially affect the public interest of Nova Scotia, will inevitably cause further major erosion of port traffic at Halifax with the gravest consequences for the economy of Nova Scotia.

So far as we can see the alternatives, insofar as the Port is concerned, are only two. Either these provisions are not applied to any traffic moving by rail to or from the Port for loading to, or after discharging from vessels, or, failing implementation of the Kauffeld plan for the Port (mentioned briefly hereunder) the Port of Halifax will cease to handle commercially significant volumes of general cargo except for local Maritimes cargo, if and when sailings are available, with all the economic consequences for Nova Scotia that such reduction of port business implies.

f) *Discrimination between Atlantic Ports and St. Lawrence River Seaway ports.*

We cannot forbear pointing out that, in addition to the direct consequences of applying the principles of the Act to Atlantic ports, there appears also to be a discriminatory element in their application which will make these consequences even harsher.

The Act purports, in Section 1, to proclaim a national transportation policy, part of which says, in effect, that...

...each mode of transport, so far as practicable, shall bear a fair proportion of the real costs of the resources, facilities and services provided at public expense.

It is, indeed, in implementation of this that we now have the legal obligation, contained in the Act, that...

...all rail rates shall be compensatory.



The railway is in quite an exact sense our "Seaway", and we fail to understand why, when the St. Lawrence Seaway Act contains a very similar provision as to tolls meeting costs, the provision as regards the railway is to be enforced, but that regarding the Seaway is not.

Again, it would seem to us that the services of ice-breakers, particularly in the Gulf of St. Lawrence, and may be in the River, should, in view of the proclaimed national policy, be charged at compensatory rates against the vessels benefiting from them.

It seems to us that the policy is being rigidly applied in the Atlantic Region, and only loosely applied in Quebec and Ontario, and that this constitutes discrimination against Atlantic ports of Halifax and Saint John, N.B.

#### 6. *The Maritimes' Position*

Your Committee must be aware of the fact that many Maritimers, and particularly Maritimers who have to rely on transportation either for employment or for business, are highly dissatisfied with many aspects of federal transportation policy.

Ever since Confederation they have been seeking rate parity with the central provinces. Rate parity was implicit in the provision of the Intercolonial Railway, but in any case it was officially enshrined in the Maritimes Freight Rate Act of 1927. Yet only for some short periods, as many studies show, have they ever actually had rate parity and they do not have it now, the most recent study says. This is "The Atlantic Provinces Transportation Study" by the Economist Intelligence Unit (a study sponsored by the Department of Transport and the Atlantic Development Board).

This fact is also demonstrated by the recent increase (September 5, 1967) in less-carload rail rates which, in the cases of many commodities, were increased more in the Atlantic Region than they were elsewhere in Canada.

This fact, that the Maritimes have disproportionately high rail rates, is blamed for a consequently lagging economy, for an out-migration of the best brains, for high unemployment and other attendant evils of this nature.

The port worker, or firm, sees cargo and business diverted from the port by reason of the St. Lawrence Seaway, or winter navigation on the St. Lawrence River, in the first case due to federal subsidy and, in the

second, due to federal ice-breaking and other services provided free.

In addition to which large sums are spent on special facilities in the St. Lawrence, such as the ice boom in Laprairie Basin, straightening the curves in the St. Lawrence River and in dredging the channel below Quebec City. Each year large sums go on the St. Lawrence Seaway, not to mention the \$100 million cost of twinning the Welland, etc., etc.

At the same time nothing that will so obviously and immediately benefit our economy is ever done in the Maritimes. Instead, Halifax cargo tonnage falls, vessels calling at the port are fewer so that sometimes, although the cargo is offering, there is not a sailing to accommodate it. A particularly serious situation has arisen wherein Nova Scotian exports of fresh vegetables and similar to the Caribbean cannot find chill-room or refrigerated space.

Thanks to an agreement between the Department of Immigration and a U.S. steamship line (which we are still at a loss to understand) which permits that steamship line (and now others) to disembark up to 99 Canadian immigrants per vessel at New York (instead of at Halifax) our immigrant traffic through the port is suffering.

On top of all this the government imposes the National Transportation Act which is clearly inimical to the interests of the Port and of industry here. On the passage of the Act, the government left the impression it would not apply it in the Atlantic Region for two years, to allow a study of the effect it would have on the local economy. However, it appears now this period of grace was only in respect of carload rates, for we have recently had the ill affects of the increase in the less-carload rates already mentioned; and it is worth pointing out that, as predicted, these increases were in many instances higher in the Atlantic Region than corresponding increases elsewhere in Canada.

These things have given rise to a feeling that the federal government is either unaware of, or careless of our interests. There are, further, those who believe that because Quebec and Ontario have more political power, the Maritimes are destined to be a permanently disadvantaged and relatively neglected area.

We do not accept this point of view. We do however feel it necessary to point out the

grave injustices of some federal policies and to demand redress.

New roads, new piers, financing of industrial parks and providing other infrastructure facilities, such as the Atlantic Development Board is doing, are necessary and valuable. But what is more necessary, in addition, before any real economic progress can be made in the Maritimes, is to change the terms of trade: the terms whereby in commerce and industry the Atlantic Region consistently finds itself at an unfair disadvantage, for example, in the matter of freight rates, vis-à-vis other ports of Canada.

Such a change in our terms of trade could be had through transportation, particularly through the improvement of existing railway plant and rolling stock and, with the co-operation of the railway, in the operation of integral trains.

7. *"The Atlantic Provinces Transportation Study" a study by the Economist Intelligence Unit—1967*

This study was ordered by the Department of Transport and the Atlantic Development Board largely because of representations by the Maritimes Transportation Commission, this Commission and other Maritimes agencies expressing fears as to the effect the National Transportation Act (the Bill C-120/232) would have on the economy of the Atlantic Region.

The terms of reference of this study were very wide; so wide, indeed that the consultants could have studied almost anything that seemed to them useful to study.

a) *The importance of reducing the cost of transportation.*

It must be clear from all we have said that the cost of transportation in the Atlantic Region is the basic problem. If this can be reduced, hence permitting carriers to reduce their rates, then many other problems can be solved.

The other approach is through transportation subsidies, but surely, the first approach should be to see whether, by one means or another, costs can be reduced. The E.I.U. did not examine this latter question at all.

b) *Upgrading the railway line.*

"Transportation" in the Atlantic Region means very largely railway transportation and on this latter line of enquiry, the first

question concerns the adequacy and efficiency of railway fixed plant.

Without going into detail, we have reason to believe that quite significant cost-savings could be had by upgrading and improving the railway line from Halifax to Quebec, via Edmundston.

Anyhow, the reason that this matter was not considered by the E.I.U. is perhaps sufficient to justify a request that consideration be given now to having such a study done.

c) *Rolling stock of the railway*

The next question is the adequacy and efficiency of railway power and rail cars. We have indications that, maybe because revenue from the region does not justify more, the railway operates on a very thin margin of power and cars. It may be that efficiencies and hence cost-savings can be obtained in this sector.

In any event, it seems to us that these two points, improvements in fixed plant (as mentioned at a) above) and in power and cars should be studied with a view to deciding whether efficiencies are available, and if so in which sector (maybe in both) capital might best be invested, and whether, if insufficient return is available on such railway investment, the wider benefits to the region of such transportation efficiencies would justify an outright grant from the federal government to cover the capital cost involved.

d) *Technological advances*

This is concerned with new and better ways of doing things. Recently new techniques have become available, particularly in railroading, some more some less sophisticated, but all producing quite surprisingly high cost-savings.

For example, large, fast, permanently-coupled integral trains, moving from point to point, without yarding or classification, can improve the revenue usage of rail cars from a continental average of between 6% to 10% to averages of the order of 60% and 70% and maybe even more, yielding enormous cost savings through greater productivity of invested capital. With less sophistication, the same technique can be applied to conventional equipment in the operation of unit trains and still produce significant cost savings, as compared with current railroad practice.



When to integral or unit train operation, the technique of moving goods from door-to-door in 20ft or 40ft containers is added, further very substantial cost-savings are effected. None of this was considered by E.I.U.

*e) Concept of the Kauffeld plan for the Port*

As commerce, particularly international commerce, becomes ever more competitive the transportation cost element in the selling price becomes increasingly important. As new technology in transportation provides the opportunity of greater cost savings, again the transportation cost element becomes more important.

Larger vehicles permit economies of scale. For example the cost of hauling oil is reduced from \$4.52/ton to about \$1.50 by increasing the size of the vessel from 10,000 to 100,000 tons, but there has to be a port that has the depth of water (60 to 70 ft.) to harbour such vessels. Halifax is such a harbour.

Similarly, inland costs can be reduced by bigger, faster, permanently-coupled trains that operate as a unit from Halifax to say, Vancouver and return without yarding or classification, stopping at only a minimum number of main, intermediate points to discharge inward cargo and, on return, to load outward cargo, all of which in containers that permit fast, economical handling.

Such a system, under one management which would integrate the trains and the boats, operating insofar as the railways are concerned as a private shipper, and hence divorcing it entirely from all of the disabilities that the railways suffer from, can produce truly startling reductions in cost as compared with existing practice.

The cost-savings, indeed, are such as to indicate that the competitive range of such a system might extend Westward to Japan and Southward as far as Los Angeles—eventually. The shortest direct route from Japan, or Vancouver to Europe is via Canada and Halifax. From Vancouver, for instance, to London, the distance via the present route (Panama Canal) is 8825 miles, via Halifax it is only 6473. Nor could the Panama route ever attain the economies of scale of Halifax, for the former is restricted to vessels of 70,000 tons deadweight. Halifax, if it is necessary to push the competitive factors to the ultimate, can harbour vessels of at least 200,000 tons deadweight, giving much greater economy.

Needless to say, the benefits of such a system, to Canada whether trans-continental or

inter-continental, would be very great. Apart from its earnings and the commercial movement it would generate, it would put at the service of Canadian exporters, the least costly, most regular, reliable and modern transportation service that advanced technology has so far conceived; and this would be a very considerable competitive factor in their favour in selling overseas.

This Commission has a study of such a system, prepared by competent consultants, extending from British Columbia and California to Western Europe via the Port of Halifax, showing it to be feasible and profitable, provided the co-operation of the railways can be obtained. We have reason to believe that the trans-continental railroad serving Halifax would be co-operative toward such a scheme, or to some part of it.

*f) The initial phases*

Clearly such a scheme has to be phased in. We therefore have studies being made by consultants who will recommend whether a low-sophistication unit train service between Halifax and certain interior points is feasible and, if so, the best methods of initiating it at an early date.

Particularly in this initial phase the co-operation of Canadian National Railways will be vital.

*g) Higher sophistication*

A low sophistication scheme is not likely, in this now highly competitive business, to be viable for long. We must therefore, while the interim phase buys us time and experience, push on with research and development of more sophisticated integral trains yielding the greater economies contemplated in the original feasibility study.

This will require substantial sums of money and if the federal government were inclined to do something really significant to, as already mentioned, change the terms of trade in this part of the country, nothing it might do would be more worthwhile than financing research and development of this nature directed toward solving the Maritimes perennial freight rate problem on the basis of economic rather than subsidized railroad service.

*h) New technology applicable also to domestic railroad movement*

Such trains naturally, require large volumes of cargo to pay off. A port canalizes cargo from many origins. Hence a port is the



logical point at which to initiate such trains, but, once proved in port service, there will be no difficulty in operating also similar domestic trains, wherever sufficient cargo is moving, or can be attracted by virtue of the lower cost and better service.

In a sparsely populated country like Canada a vast improvement in railway technology and hence efficiency would bring significant economic benefits all over the country, but for obvious reasons, the matter is one of vital concern to the Maritimes.

i) *Port of New York threatens business of Canadian ports*

The Port of New York, thanks to its enormous traffic base, is a common port-of-call practically *without exception*, for all steamship lines providing the new containerized services between East coast North America and the highly sophisticated European market, thus offering not only economy but excellent frequency.

By so doing, it has already attracted to itself significant volumes of traffic that formerly used Canadian ports (unofficial estimates are around 30% of the general cargo business of the Port of Montreal).

If this process is allowed to continue unchallenged, it is entirely possible that New York will become *the major Canadian port*.

We believe when its favourable geographic, topographic and climatic factors, are added to the economies of new technology, that the Port of Halifax, among Eastern Canadian ports, is the only one capable of challenging New York in the coming era of larger, faster and more expensive vehicles (vessels and trains) and transfer equipment. Here is therefore a further reason of interest to Canada to examine carefully these new technologies as they can be applied at the Port of Halifax.

j) *The McKinsey report*

Coincidentally, after we had received the original Kauffeld feasibility study (about 6 months after; the McKinsey Report to the British Transport Docks Board was published. (A copy of this report has been sent to Mr. Macaluso and we can, if desired, provide, some further copies).

The findings of the McKinsey report in many respects confirm the Kauffeld report on this Port. One principle, implicit in Kauffeld, on cardinal importance to Halifax and now confirmed by McKinsey is the following.

The McKinsey report declares that comparing vessels of up to 1200 containers (approximately 24,000 deadweight tons) with integral or unit trains, over distances of up to 3300 miles the unit train will produce lower ton-mile costs than the container-ship, presumably the most economical general cargo vessel now available.

If this is so it follows that so long as neither the sea, nor the land haul exceeds 3500 miles, and so long as the vessel considered does not carry more than 1200 containers (the largest container vessels so far building are of 1000 containers; then the greater the distance the cargo travels on land (naturally without circuitry) and the lesser the distance it travels by sea the more economic is the total haul.

Considering the haul from, say, the industrialized Great Lakes Region to Europe, the route via Halifax exactly fits this specification. Halifax would provide the longest direct haul by land and the shortest direct haul by sea. It follows that Halifax, with the new technology, should be the least cost route among Eastern Canadian or U.S.A. ports. In addition, of course, Halifax, with its great depth of water, almost unique in this among such ports, could increase its competitive edge by harbouring vessels up to 200,000 dwt., which neither New York, nor Montreal could do.

k) *Investigation, evaluation and possible realization*

To return to the original line of thought, these are all matters that the E.I.U. might have looked at, although in fairness, it must be admitted some of them are of fairly recent origin. Nevertheless they are all, we feel, worthy of some attention from your Committee. We would suggest that they be investigated, evaluated and, in respect of those that survive, the federal and provincial governments, the railways and other interested agencies (including ourselves) should co-operate to implement them as soon as may be, and in the best possible way.

Having exhausted therefore, for the moment, the possibilities of greater efficiency, attainable by technological advance in the Maritimes, we turn now to the question of subsidies.

8. *The Maritimes Freight Rate Act [MFRA]*

The MFRA is not applicable to import/export rail rates and hence has little application to port traffic.

Nevertheless the industrial development of its immediate hinterland must be of interest to a port. The purpose of the MFRA is to benefit Maritimes Industry and consequently it can be, if needed, considered a developmental factor.

There is no doubt in our minds that the MFRA, as it stands today, is failing almost entirely to achieve its stated objectives which were morally, if not legally, part, and a very important part, of the Confederation agreements.

It is not our intention to analyse the MFRA as it stands today. The Economist Intelligence Unit in its 12-volume study, already referred to, "The Atlantic Provinces Transportation Study", has already done this in Volume V, and found the Act a failure in many important particulars. We know that the Maritimes Transportation Commission will make a very complete submission on this subject and we wish to go on record as fully supporting everything the Maritimes Transportation Commission says, or will say, in this regard.

As has been indicated earlier in this brief, the Port of Halifax is presently suffering grave erosion of its business due to a number of adverse factors beyond local control.

We have indicated that we are sparing no effort to re-establish the competitive position of the Port by the use of advanced technology now becoming available; and we have good hopes that, with some initial assistance from the federal government, for research and development, and the co-operation of Canadian National Railways, we shall be successful in this.

However, between the proposal of ambitious plans and their consummation, particularly in transportation, where many different interests have to be reconciled, there may be a considerable passage of time. Meantime the factors causing the erosion of port business are not going to get any less; indeed, they are sure to become more significant and it is certain port business is going to get worse before it gets better. The effect on the economy of the City is likely to be most adverse.

If freight rates, including import/export rates are the problem they are, and if the future economic development of the Maritimes rests, as it does, on the development of industry and port traffic, the one triggering the other as previously mentioned, and if the MFRA is to be radically overhauled and improved, as we hope it will be, might it not

be considered justifiable to make import/export rates to Atlantic ports eligible for the subsidy, even if only on a temporary basis, until we get these new technologies working.

While such a subsidy would by no means solve the problems of the Port of Halifax, there is always marginal traffic a port can attract, if given even minimum aid of this kind, and there is no doubt such aid would help Halifax. Furthermore, this extension of the MFRA could be looked on as, in some measure, balancing the subsidized Seaway and the free ice-breaking service offered in the Gulf and St. Lawrence River, both of which, whether so intended or not, being major factors in the erosion of Atlantic ports' traffic.

#### *9. Study of the significance of freight rates to the growth of new secondary manufacturing industry in the Atlantic Region.*

As mentioned above, the growth of industry within its immediate hinterland must be of maximum interest to any forward-looking port—for obvious reasons.

Such industry as there is in the Atlantic Region is resource based, much of it primary. The present consensus of thinking appears to hold that, while our primary industry will become more efficient and more productive, it will not employ a significantly greater number of people and that consequently our main hope of employing (and retaining) the substantial majority of the people who are growing up and being educated in the Maritimes today lies in the development of secondary manufacturing industry and in related services, including of course transportation and port service as two of the most important of these latter.

It is our considered opinion that the relatively high cost of transportation to and from Central Canada is the principal reason secondary manufacturing industry in the Maritimes has not developed at the same rate as elsewhere and, so long as this country and its trade and tariff policy remain constituted as they are, the cost of transportation will, in the opinion of this Commission, persist as the major economic problem of the region.

This is a matter that we would have thought would have been of major interest to the E.I.U. in its study already mentioned. However, one finds in the report only a passing reference to it, to the effect that in their



(the E.I.U.'s) opinion, freight rates are not the major obstacle to greater industrial development in the Region. They then add that they have not seriously studied the matter, but that in studying some other matters this is the impression they gained. We in the Maritimes, who live and work with this problem daily, are not likely to take such an impression seriously without some supporting facts, or proof, or evidence of serious study.

Whilst there may well be varying opinion on the cure, let us at least take all reasonable and proper steps to diagnose the malady. A study should therefore be undertaken, at the earliest possible moment, to establish, with as much accuracy as possible, the significance of freight rates to industrial development in the Region.

As consultants inevitably reflect to some extent the opinions of the people who hire them, while the funds should be supplied by Ottawa, we suggest that the study is more likely to be informative and useful if it is ordered by an Atlantic Region transportation agency in daily contact with these matters such as, for instance, the Maritimes Transportation Commission which is, as the Committee knows, an agency of the four governments of the Atlantic Region.

*10. In conclusion, Honourable Members, we wish to emphasize our main thought in appearing before you today. It is this.*

Given the conditions in which the Maritimes undertook Confederation; given the history of the Intercolonial Railway and of the vicissitudes of the freight rates on the line; given our lagging industrial development and paucity of alternative means of transport for our commerce with the other provinces and with the U.S.A. and between these and the Port of Halifax, you will certainly understand our view that our railway is nothing less than our commercial lifeline, and hence our preoccupation with it.

As a practical matter, particularly to Quebec, Ontario and the West and to the U.S.A., we have no alternative to our railway for regular movements of goods in any considerable volume.

Thus we need and request and are prepared to work for not only a good railway, but the very best available railway, with every possible refinement in cost-saving efficiency, in reliability and regularity and in frequency of service that modern technology can offer; and it can offer much; and in our view we shall be derelict in our duty if we do not make every possible effort to attain these standards.

We thank your Committee for the opportunity to present our views.

J. Wm. E. Mingo, Q.C.,  
Chairman,  
Port of Halifax Commission



## APPENDIX A-29

SUBMISSION TO THE STANDING COMMITTEE ON TRANSPORT AND  
COMMUNICATIONS, HOUSE OF COMMONS, OTTAWA, ONTARIO  
ON BEHALF OF: STANFIELD'S LIMITED, TRURO, NOVA SCOTIA

February 8, 1968

A transportation system is one of the most vital elements in the development and maintenance of secondary manufacturing in the Atlantic region and the closing of the economic gap between central and eastern Canada. The future growth and prosperity of the Atlantic region depends on the development of industry. This development cannot take place unless an adequate transportation system is established.

The Atlantic region market in most cases is not large enough to support an efficient production unit. Therefore access to the central and western Canadian markets is mandatory.\*\* The cost of access to these markets must be reasonable and service must be fast and efficient. At the present time central Canada has better access to the Atlantic region market than we do to theirs. Pool car and truck service exists from central Canada to the Maritimes but not vice versa. Therefore a great number of manufacturers are faced with higher outbound costs than their competitors face on inbound traffic to the Atlantic market. Although piggyback and carload service is available on outbound traffic, many manufacturers do not have sufficient quantities to qualify. The demand for service and the geographic disparity of customers does not allow many manufacturers to accumulate the necessary quantities. Therefore they find themselves forced into higher transportation costs than would be necessary if a westbound pool truck or car service were available, or if they could qualify for piggyback service. Under piggyback a very distinct problem exists. Even if manufacturers did qualify for piggyback service they would find themselves involved in a costly distribution problem at destination if the contents of the piggyback shipment were for multiple customers; or if the destination was primarily

a break-bulk point. Railways cannot use piggyback to originate traffic at the break-bulk point. Because of this feature of piggyback pool car or truck service would be a distinct advantage to many manufacturers in this area.

I think it must be realized that the Atlantic area (except in the case where this region is large enough to support an economic unit and in certain primary products) is not a natural manufacturing area. Industry breeds industry and we have not to date established the base that will provide the take-off point for this region. The industrial base of the Atlantic region is certainly much larger than it was a few years ago. This improvement is a major accomplishment for this region. However, raw materials in many cases must be imported from central Canada to produce finished goods. Warehousing in Central Canada and elsewhere is often necessary to remain competitive in the market place. The consequent duplication in inventory and the additional warehousing costs add to the cost of business which many major competitors do not have to contend with. To these basically distribution costs must be added the cost of getting the product to the central market. At this point the two products enter into competition with one another. If price competition is keen, as it is in many cases, and stock control and service is important, many firms find themselves faced with additional costs as outlined above. To the extent that central Canadian firms warehouse in the Maritimes the additional costs may be offset to a certain extent. However, warehousing by central Canadian firms in the Maritimes tends to be the exception rather than the rule. Also this market is not usually a major one to them and often they can increase the price to recover these additional costs. The reverse is not usually true in the central Canadian market.

Although it is tough to prosper under these conditions it can, and is, being done. Our own

\*\* The export market cannot be neglected, but this important market will not be dealt with in this submission.

experience is an example. For years we have had to content with the constant complaint by many of our actual or potential customers that Nova Scotia is too far away and it takes too long for the merchandise to come from our plant to the store. The problem is psychological as well as economic. The fact that major competitors are located within the largest marketing areas in Canada is a key factor in this problem. I don't think that one should underestimate the extent to which many potential and actual customers in Ontario and Quebec feel that the freight cost and service problem is sufficient to create a road block against merchandise produced in this region. We have been able to overcome some of these difficulties but we are very aware of their realism. Any change in transportation costs or service is of vital interest to our firm. If freight costs, such as piggyback and/or carload were to increase by the same percentage as ETA100 did in relation to LCL I would venture to guess that our business would be materially affected because our ability to compete would be severely limited. Many programs are helping to assure that business will locate and have some real success but, gentlemen, I submit to you that transportation is a very important ingredient in the ability of this area to grow and prosper. It is most important that transportation be viewed from a regional development point of view as well as business point of view. It is important that our transportation system does not conflict or hinder our attempts to enlarge our industrial base.

At the present time substantial expenditures on highways and subsidies to assist transportation are being carried out. I feel that expenditures on transportation must be placed within the priority of developmental projects and judged by their utility to the region. The economic characteristics of the different modes of transportation should be studied and a co-ordinated transportation program and system drawn up. Any major change is always slow and painful but the guide lines must be set and the ground work laid. The two major types of carriers by which we can reach the central Canadian market are the motor carrier and the railway. Motor carriers are characterized as providing superior service with greater flexibility at higher speeds than railways. Motor carriers are best adapted to moving light goods in small quantities, making short hauls, providing feeder services, and meeting the need for

flexibility. This means that trucks are most effective for short to medium hauls and for products requiring specialized service and flexibility. The rails are best at handling freight for long distances in carload lots at intermediate speeds. In this area their costs are less than those of trucks. The railroad gets three times as many ton miles per worker and more than three times as many ton miles per gallon of fuel in relation to trucks. Greater economy would be realized if each of these media could be given the work each is best equipped to handle. This means a common administrative body to govern transportation and the equalizing of competitive opportunities.

I believe that railways are not being effectively utilized. Some of this is their own fault due to their unprogressiveness in the past and the poor service they offered to their customers. Their hands, to a certain extent, have been tied by regulation. Rails are now attempting to regain some of the freight that would, and should normally move on the rails that they lost to truckers by introducing piggyback service and containerization. In addition rails are putting a great deal of emphasis on service. I do not believe that the cost-volume-profit relationship has been fully explored by railway rate setters or they would not have lost a lot of the traffic that normally should be theirs to the motor carriers. There is no reason why railways should not be utilized more fully in the transportation of finished products from this region to central Canada. I believe that motor transport is more of an intra-region concept than an inter-region concept except in the case where specialized service and flexibility are very important factors in the distribution of a product. I do not believe that the subsidization of the motor carrier is a valid argument. Instead I suggest that further subsidization of the railway is necessary. It is highly unlikely that motor carriers bear a fair share of the users cost of building and maintaining our highway system. Our highway system is a serious drain on the capital funds available to the Atlantic region. The railway, on the other hand, is already established and costs much less to maintain and from an economic point of view has the potential to provide the most reasonable service to the central Canadian market.

Unfortunately ETA100 is not the answer to the less than carload problem nor to the railway cost-volume-profit problem. The ETA100



has had the effect of driving freight to the truckers. In fact, I believe that the ETA100 only aggravated an existing problem. Motor carriers have taken the more lucrative traffic from the railways little by little and have left them with the less desirable type of traffic from the motor carriers point of view. The idea of pick up and delivery is commendable because it should improve service. However the increase after allowance for this is approximately 20 per cent to 25 per cent. The cost of transportation relative to the sales dollar has increased 1 per cent to  $1\frac{1}{2}$  per cent. This is a significant increase and is at the root of the unsettling effect that ETA100 has had on the Atlantic community. Also I believe it is important to point out that as many costs are hidden under the ETA100 as are formally listed in the table of tariffs. There are extra charges for insurance, each carton over one, and oversize cartons. It is hard to find a carton that is not oversize under the dimensions specified in ETA100. Perhaps the severest restriction of all is the density regulation of ten pounds to the cubic foot. Although this regulation is less than that used by trucks it hit especially hard at the traffic that was continuing to use railways because it tended to be of the bulkier type. ETA100 as it now stands is a most unsatisfactory tariff structure. The rails must come up with a more reasonable less than carload tariff structure for this region.

## CONCLUSIONS AND RECOMMENDATIONS

This brief is intended to present a point of view. The recommendations of this committee may have a substantial bearing on the development of an adequate transportation system within the Atlantic region that takes in the economic characteristics of the carriers and the needs of the region. The region needs a transportation system that is reasonable in cost and fast and efficient in the handling of freight. Business men recognize the problems that carriers in the transportation industry face. We are not seeking zero transportation costs but we are seeking the opportunity to compete as fairly as possible for a share in the total Canadian market. We are not afraid of competition but the transportation industry

is tool by which we can be competitive and we would like to see it used this way.

The Maritimes Freight Rates Act could possibly be criticized for not equalizing the opportunity for firms operating in the Atlantic region to compete in the central Canadian market with manufacturers located in that market. This I believe was the intention of this Freight Rate Act. Opportunity cannot be equalized for everyone and it is most difficult to determine when opportunity is equalized. However attempts must be made to try to achieve the goal of equal opportunity.

ETA100 in its present form is unsatisfactory. The hidden or so-called surcharges should be removed and the cost of insurance should be born by the railway since it is their responsibility to make sure that the merchandise is handled properly and delivered in good condition. The cubic density regulation should either be abandoned in favour of actual weight or reduced to five pounds per cubic foot.

Attempts should be made to institute pool car service on westbound traffic to the central Canadian market. Piggyback service, pool car service, and less than carload service would provide three basic ways for the manufacturer to reach the market depending upon the size of the shipment and the location of the customer.

Special consideration should be given to raw materials being brought into the Maritimes for manufacture. These raw materials should come under the Maritime Freight Rates Act and be subject to special rates.

The railways must improve their service. They should be encouraged to continue to develop a piggyback and containerization service and in the use of highway vehicles in conjunction with rail equipment to provide the area with the best service at reasonable rates. Truckers should likewise be encouraged to develop in those areas where they are best equipped to provide a real service to the region.

Respectfully submitted,

F. Thomas Stanfield



## APPENDIX A-30

## BRIEF

by

## TRURO AREA INDUSTRIAL COMMISSION

Mr. Chairman and Gentlemen:

This submission is for and on behalf of:-

The Truro Board of Trade,

The Council of the Town of Truro,

The Council of the Town of Stewiacke,

The Council of the Municipality of Colchester County,

The Council of the Municipality of East Hants,

The Truro Area Industrial Commission.

whose members take the view that the Atlantic Provinces have very legitimate and important transportation needs for which national policies must be modernized or developed, or both. These needs are as real and vital to the people of the Atlantic Provinces as were, for example, the aspirations of the citizens of the St. Lawrence Seaway area for construction of the seaway and for maintenance of tolls which are less than compensatory—or the Western grain growers need for export rates on grain to remain at the 1897 level.

The Atlantic Provinces transportation needs can no more be met by a uniform National Transportation Policy than either of the above needs could be met by such a policy.

The November 9, 1967, announcement by Transport Minister Hellyer, while providing an offer of some relief, is conditional upon the railways being given the authority to cancel the so-called less-than-carload freight rates, which went into effect on September 5th, 1967. These rates are important to Atlantic Provinces shippers, particularly those shipping goods of a light and bulky nature, as through their utilization certain shippers have been able to avoid the full impact of the new non-carload rates. It is important, therefore, that these less-than-carload rates be retained.

It is therefore respectfully requested that the reduction offered in Mr. Hellyer's November 9th, 1967, announcement be implemented at once and that the so-called LCL freight rates be maintained at least until a suitable and adequate regional transportation policy has been developed and implemented.

The effect of the new tariff appears to fall most heavily on local manufacturers attempting to supply local markets in competition with manufacturers outside the Atlantic Region. Certainly the new rates discourage the development of local industry for local markets, something the Government of Canada tells us we should be doing.

Evidence tends to point to the Atlantic Provinces being asked to bear a greater portion of the railways' increased revenue needs because it appears that the increase in the Atlantic Region was greater than elsewhere (i.e. our rate was frequently lower prior to September 5, 1967, but now is generally the same as, or higher than elsewhere in Canada).

This not only imposes an unfair burden on the people of the Atlantic Provinces, which are the greatest users per capita of railway non-carload service than any other region of Canada except Saskatchewan, but we do not have an alternate means of transportation such as is the case in Central Canada. In consideration of the latter, may we suggest that Maritime Freight Rates Act subsidies be extended to the movement of goods by other modes of transport such as highway carriers; this step being deemed most important to assist in the development of a more effective and competitive transportation climate in this part of Canada.

May we suggest your committee make a review of the terms and conditions under which Nova Scotia entered Confederation; the main consideration of which was that a railway be built linking Nova Scotia with the

Central Provinces. Coupled with this construction was the promise of a freight rate structure to meet the needs of our commerce. This was given quasi official recognition by the Royal Commission on Maritime Claims (the so-called Duncan Commission of 1926) when it said on page 21:

"The Intercolonial Railway was completed in 1876, and it would appear from the evidence we have received that from then until 1912 the interests of the Maritime Provinces were fairly well safeguarded, the freight rate structure being such as to take into account the requirements of their traffic. The lower level of rates that prevailed on the Intercolonial Railway System prior to 1912, is, in our view, rightly to be interpreted as the fulfillment by successive governments of the policy and *pledges* that surrounded the railway from its inception, whatever impressions may have been created by the form of administration."

We are not suggesting, gentlemen, that the freight rates in the Atlantic region should be set back to the same structure as prevailed in 1912 but we do suggest that they be adjusted to the extent that we continue to enjoy the same competitive advantages in the transportation of goods as was promised Nova Scotia at the time of Confederation.

The position taken by the Nova Scotia delegation in discussions bearing on Confederation may be found on page 26 of the Province of Nova Scotia's Submission to the Royal Commission on Maritime Claims (1926):

"An Intercolonial Railway would give the means of communication at present want-

ing. It would open to Canada an Atlantic seaboard on British soil, from which she is now cut off; and it would offer to the Lower Provinces *a ready access to the vast field of enterprise and progress occupied by their fellow subjects in the interior*. It would prove a benefit of incalculable value, should it be the precursor of, as it is an absolute necessity towards, a legislative union of Her Majesty's North Atlantic Provinces—a *measure essential to the full development of the power which their situation and character are calculated to confer* and without which they never attain the high position to which their united energies and advantages would lead them."

In summary, Mr. Chairman and Gentlemen, we ask only that the policy and pledges which surrounded the railway at its inception, not now, be arbitrarily abrogated as was done with the institution of the new tariffs.

Just as much as the citizens of Central Canada depend upon the St. Lawrence Seaway for the development of their economy we in Nova Scotia depend upon the railway as our "Seaway". For our economic survival we must have railway freight rates low enough to maintain our industries in a competitive position with industries in other parts of Canada until such times as an alternative mode of transportation to make this possible, is provided.

Respectfully submitted,

TRURO AREA INDUSTRIAL  
COMMISSION.

J. G. Glassey, Chairman.

APPENDIX A-31

BRIEF BY NOVA HEADWEAR LIMITED, TRURO, NOVA SCOTIA

Feb. 8, 1968.

A REPORT ON TRANSPORTATION COSTS  
RE OUR PRODUCTS.

To simplify this report we will use only a sample order and the following table will show the shipping costs for this specific order prior to and following the increase in September 1967 on LCL with pickup and delivery.

TABLE 1

Shipment consists of 12 doz. caps packed 1 doz. per carton and these cartons tied in bundles of 6 so that prepared shipment consists of 2 pieces with a gross weight of 36 lbs. and total cubic dimension of 18 cu. ft.

Truro to Destination	L.C.L. Rate	L.C.L. Rate	Increase	
	Aug. 1967	Oct. 1967		
Truro to St. John's, Nfld. ....	\$3.25	\$4.25	\$1.00	30%
Truro to Montreal, Que. ....	\$3.25	\$5.95	\$2.70	83%
Truro to Toronto, Ont. ....	\$3.35	\$8.00	\$4.65	138%

The above specific order of 12 doz. caps is a good representative order based on average shipments to our trade.

In addition to the above table there are also many other factors which are relative to the fact that our competitive position has been seriously threatened by the new LCL rates and these are listed numerically as follows:

1. The breakdown on total shipments from this company is 90 per cent LCL with pick-up and delivery, 5 per cent Truck and 5 per cent Parcel Post. We do not have any carload shipments.
2. As we ship mainly to the retail trade, it is not feasible for us to ship on any basis other than pickup and delivery.
3. Our industry is based on service and it is therefore imperative for us to ship via the fastest method (CNX in most cases).
4. To assure the future success of this company, it is necessary for us to market 75 per cent of our total sales in the Central Canada area. The balance of 25 per cent is sold in the Atlantic Provinces with sales in Newfoundland being the highest on a per capita basis.
5. For our sales in Newfoundland we do not have any choice in how we ship as

CNX actually has a monopoly on this province.

6. Our competitors in our industry are located in Montreal and Toronto and their shipping costs for an order as per Table 1 to their mass market are approximately \$1.50 maximum. Not only do they have the advantage of faster and more efficient service to this market area, but they also land their shipments to their consignees at approximately 25 per cent of our costs in Montreal and 18 per cent of our costs in Toronto.

7. Our average wholesale price is \$12.60 per doz. so our increase in shipping costs to Toronto under the new LCL rates results in \$4.65 per 12 doz. shipment or \$.3875 per doz. This amounts to over 3 per cent of our actual gross selling price being lost in the increase in new rates. With manufacturing profits running just in the 3 per cent bracket, this increase in rates simply means that we are unable to sell in the volume market area of Ontario and Quebec without losing money on our sales.

8. We have not been able to find an alternate method of shipping (i.e. truck transport) that will provide us with the necessary service time in delivering that our accounts require.



9. It is necessary for us to purchase 98 per cent of all our raw materials from mills in Ontario and Quebec. Here again we are being penalized with highly increased shipping costs so that once again our competitive position is further eroded in comparison to that of our competition in Ontario and Quebec who have these raw materials in their immediate area.

10. The increased costs of shipping resultant from the new LCL rates applying to both our incoming raw materials and our outgoing finished products now make it completely impossible for us to be competitive in the volume market area of Ontario and Quebec and without this market we are unable to survive as an industry.

11. The only satisfactory solution to this most serious problem is not just a return to the existing rates prior to Sept. 5/67 but a further reduction on these rates with increased efficiency in the shipping time for guaranteed delivery by the C.N.R.

12. Due to excessive costs and delays in bringing in raw materials from Ontario and Quebec it is necessary for us to carry four times the amount of inventory carried by our competitors. This in turn is reflected in higher interest and banking charges for our company.

D. G. MacLeod  
President

## APPENDIX A-32

## BRIEF BY TOWN OF MULGRAVE, N.S.

February 8, 1968

BRIEF: Port of Mulgrave in the Strait of Canso Area

Transportation in the Atlantic Provinces of Canada and beyond may undergo some radical changes as a result of the present trend toward super tankers and super transport ships.

Three ports on the Eastern Atlantic Seaboard capable of accommodating such large ships are; New York, Halifax and the New Port possibilities in the Strait of Canso area. New York is making rapid progress in its plans to accommodate this new trend in shipping and it appears only reasonable to expect Canada to remain in a relative, Competitive Position by developing one of its Nova Scotia major ports. Indeed, it well may be that Canadian and American interests could be better served by a joint development of a super port in this Strait of Canso area.

In the Strait of Canso area south of the Causeway we have one of the finest ice free

ports on the Eastern Atlantic seaboard and in actual fact are considered a Gateway to the St. Lawrence River as well as having a strategic location on the Atlantic sea route.

One can visualize trans-shipment from a super port in this area up and down the St. Lawrence River via the Gulf of St. Lawrence by lake boats and other boats, not capable of weathering the stormy Atlantic. Indeed a free port in this area may well merit consideration.

Consideration of the foregoing may not fall within the terms of reference of your committee, however, we do feel that any long term planning for transportation in Atlantic Canada will wish to consider the implications of super ports.

We wish to extend a cordial invitation to your Committee or any members of your Committee to visit Mulgrave, when in Nova Scotia, for an on-the-spot analysis of our potential.

Town of Mulgrave  
Mayor Eugene O'Neil

## APPENDIX A-33

BRIEF BY NOVA SCOTIA TEXTILES, LIMITED, WINDSOR, NOVA SCOTIA

RE: TARIFF 100 AND NEW LCL FREIGHT RATES

This Company would ask permission to present the following brief before your Committee when it appears in Halifax on February 21st and 22nd. The brief will be presented by the General Manager, J. D. Macdonald, or in his absence by Mr. H. A. Hatchard, Superintendent.

The changes in the rates, and coverage of the rates, will have a very adverse effect on our competitive position for the following reasons:

1. 75 per cent of our sales are made west of Montreal and 40 per cent are west of Ontario, which means that shipments must be "through" shipments via rail, or delivered to forwarding agents or lake boats at Montreal. Since shipments are f.o.b. plant, the customer specifies the forwarding agents as these are cheaper than using all rail. The old LCL rates provided delivery at Montreal, the new ones do not and a private parcel carrier must be employed, at higher costs, along with added delays, in order to use the present LCL structure and the combined result resultant cost is 74 per cent higher than the old LCL rates.

2. To compete with the Central Canadian knitters located in Ontario and Quebec, this Company must quote lower prices to give landed costs equal to theirs in Ontario and Quebec, or prepay the freight to Ontario and Quebec.

On shipments to the West, we must land the goods in Montreal to connect with freight forwarders incurring a cost not borne by the competing mills. Since there has been very little change in the freight assembly firm's tariff the competition do not have to make any extra allowances, nor do their customers pay any more for transportation than prior to September 1967.

A large part of our trade is with chain stores and wholesale houses, in a very competitive market where price and delivery time are of paramount importance. Our competition in Ontario and Quebec do not suffer from these drawbacks of transportation to connect

with the forwarders at Montreal, or suffer the delivery delays inherent in the movement of this traffic.

On the supporting table of rates reference is made only to 300 lbs and up, but under 300 lbs. the situation is even more serious. Minimum charges on movements by freight and truck to reach the forwarders, who also impose minimum charges, make this means of handling small traffic prohibitive and the new non-carload tariff is more than double the old rate. Traffic under the new non-carload tariff is handled, and billed, like express and on our product, as stated above, is 110% higher on 300 lbs. lots and higher than this on under 300 lbs. lots.

From communities like Windsor, off the main routes, Smith's Transport provide the only through trucking service and competitive conditions do not exist to enable better rates to be negotiated. Smith's, being owned by the C.P.R., have no incentive to quote finer rates than LCL.

We submit special consideration should be given to communities east of Diamond Junction by having the LCL rates, both Class and Commodity, retained on movements out of this area, and that the rates should include a delivery in Quebec and Ontario. If the railways are to be given the Maritime Freight Rate Subsidy it should be a condition that this service continue if the subsidy is also to be applied to the non-carload tariff, or express type of business. The carriers' liability should not be limited, but cover the value of the shipment without surcharges.

## SUMMARY

1. The LCL rates, both Class & Commodity, should be retained and provide a delivery at destination at least.

2. The carrier should be liable for full value of shipment.

3. Higher charges from these rates will have to be borne by ourselves and as our



competitors in Ontario and Quebec are not affected by these changes to near the same extent.

4. The volume of business affected by the rates will jeopardize the continued success of the business.

5. Rate increases should be reasonable and not double and triple previous long-established rates.

J. D. Macdonald  
General Manager

NOVA SCOTIA TEXTILES, LIMITED  
Windsor, Nova Scotia

February 7, 1968

Mr. R. V. Virr, Clerk,  
Standing Committee on Transport  
and Communications

House of Commons  
OTTAWA, Ontario

Rates per cwt on	Montreal		
	300	500	1000
LCL (old) with pick-up & delivery .....	1.55	1.55	1.55
LCL (new) No pick-up or delivery .....	2.05	2.05	2.05
Plus cartage per cwt at destination by private cartage .....	.65	.50	.32
Total .....	2.70	2.55	2.37
Increase .....	1.15	1.00	.82
Increase over old rate .....	74%	65%	53%
New Tariff 100 .....	2.76	2.72	2.68
Plus Ins cost @ \$2.00 value per lb .....	.50	.50	.50
Total .....	3.26	3.22	3.18
Increase over old LCL rate .....	1.71	1.67	1.63
Increase over old LCL .....	110%	108%	105%
Alternative means—Smith Transport (pro- vides pick-up & delivery) .....	2.19	2.19	2.19
Increase over old LCL .....	.64	.64	.64
Increase over old LCL .....	41%	41%	41%

These rates would apply to 75% of our sales

NOVA SCOTIA TEXTILES LIMITED

J. D. Macdonald  
General Manager

## APPENDIX A-34

BRIEF BY ATLANTIC BRIDGE COMPANY, LIMITED, LUNENBURG, N.S.

ON THE EFFECT OF TARIFF 100, CHANGES IN RAILWAY FREIGHT RATES  
AFFECTING THE MARITIME PROVINCES.*Abstract of the Brief*

It is established Federal Government policy to alleviate high transportation costs in areas that can least afford them. Recent relaxation of this policy had the effect of freeing railway freight rates which resulted in an actual cost rate basis, Tariff 100. This abrupt rise in freight costs is resisted by shippers in the Maritimes who are making strong representations to the Federal Government for a return to its original policy.

The ABCO Group of companies are described showing three firms with annual sales over \$5,000,000 and employing approximately 300 people. The manufactured products are fishing vessels, sailing yachts, fibreglass products, equipment for the fishing and other industries. The competitive picture is keen, having a tendency to keep wages and profits low.

An analysis of C.N.R. billing for three months of 1967 indicates Tariff 100 will increase costs by 49 per cent made up of Freight 74 per cent and Express 3.5 per cent. Application of the weight/volume rule shows increases of 170 per cent. Figures are given.

An example contract is shown valued at \$118,000. The weight/volume rule applied to this job raises transportation costs by \$3,844, which is a rise of 3.3 percent in the total contract. Another example of this rule is given, in which express shipments of fibreglass products show an increase of 43 per cent.

Recommendations are made to revise the present subsidy upwards, to relax the weight/volume rule and to retain the old "non-competitive less than carload class and commodity rate."

## INTRODUCTION

The introduction of higher freight rates as well as other costs has been a fact of life in post war years. In the past, gradual rise or rises in small steps have been absorbed in

production costs and although producing an undesirable product price, increase has been in step with other areas of the country. However, an imbalance was gradually created favouring centralized areas, the effect of which was detrimental to the Maritimes, so the Federal Government established a policy to alleviate the greatest increases in the Atlantic Provinces.

In 1967, a reversal of this established Federal Government policy had the effect of releasing the railways from close Government regulation so they could function on an actual cost rate profit basis. The result was Tariff 100 covering "less than carload" shipments. No criticism is made of the railways in production of this document or their rate structure in very competitive areas as opposed to not so competitive areas. Criticism is, however, levelled at the effect Tariff 100 will have on the business community in the Maritime area, as the large increases of Tariff 100 are too great and too abrupt for areas of marginal prosperity.

As effect is the basis of this brief, and as Federal Government policy originally was to regulate the problem of transportation costs to and from the Maritimes, it would appear that further extension of this policy could alleviate or solve it. Releasing the railways to make their own rate structure was surely foreseen as the forerunner of rate increases resulting ultimately in the need to adjust this policy. Stated Government aims of regional equalization surely do not stop short of such a vital thing as transportation.

## BACKGROUND

The companies of the ABCO Group represented in the production of this brief are as follows:

(a) Atlantic Bridge Co. Limited, Lunenburg & Mahone Bay, N.S.

(b) Atlantic Shipbuilding Co. Ltd., Lunenburg & Mahone Bay, N.S.

(c) Industrial Shipping Co. Limited, Mahone Bay, N.S.

These plants provide employment for approximately 300 people in Lunenburg County and are the second largest employer in the county. Seasonal variations and slight changes in economic conditions requiring adjustments in employment become a critical factor in the local economy.

Atlantic Bridge Co. Ltd. manufactures fish handling and processing equipment, tanks, industrial fibreglass products and supplies manufactured items to the fishing industry. Annual sales amount to approximately \$3,000,000.

Atlantic Shipbuilding Co. Ltd. builds, repairs and refits fishing vessels and supplies ships' chandlers items. Annual sales amount to approximately \$1,500,000.

Industrial Shipping Co. Ltd. manufactures fibreglass sail boats of all sizes which are sold throughout Canada and United States. Annual sales amount to approximately \$750,000.

Past experience and future prospects indicate a steady growth pattern for these companies. In five years, the sales volume will rise to ten million dollars with employment reaching five hundred people. It must be firmly stated that such growth is predicated on normal cost increases. Abnormal cost increases such as Tariff 100 will arrest this normal growth unless repealed.

The material inflow of our companies is largely equipment and raw material from central Canada and the United States to our plants in the Lunenburg area. Products manufactured in our plants are sold in the Maritime area with some sales and contract work in Quebec, Ontario and United States. The Maritime area as a whole is captive to whatever freight rate structure is in effect, so we are not adversely affected by local competition. Rising costs from whatever quarter do limit the ability of the Maritime region to purchase our products and, therefore, does adversely affect local marketing.

The central area of Canada is the heartland and for Maritime based companies, competition there is difficult in view of the costs generated by the material flow pattern. Our particular competitive position has been

maintained in part by reason of special research efforts and engineering knowhow within the ABCO Group. Examples are the development of new fish handling and processing equipment and our eminent position in industrial fibreglass. There is another aspect of our competitive position which leaves much to be desired, and that is the wage profit picture. In many areas, we are competitive only on the basis of low wages and low profit. It is our workmen and owners who bear the brunt of unusual cost increases that must be absorbed in our cost structure for competitive reasons. It is, therefore, obvious that rising costs, wages, freight, etc. must eventually price our products of a general nature out of the market in centres of larger production runs. Products of a specialized nature selling locally, will continue to be economically produced and sold. It is in the interest of all Canada and particularly the Maritime area, that we remain competitive with as much of Canada as possible, as long as possible, so that rising local consumption eventually replaces uneconomical markets.

## FACTS

When the impact of the new freight rates was felt, and it was realized to be greater than just another periodic rise, a survey of costs was carried out by Atlantic Bridge Co. Limited. The billing from the C.N.R. for June, July and August, 1967, was analyzed by converting the charges made to the new rates of Tariff 100. The bills represent more purchased material (incoming) than sales of material (outgoing). This is caused by shipments to customer's usually being on a collect basis. The figures are valid for all incoming material and could, with major revisions, in the volume/weight area, be applied to outgoing shipments.

The survey figures listed below indicate a rise of 49.1 per cent in express and railway freight shipments, which on an annual basis amounts to an increased cost of \$5,000. for Atlantic Bridge Co. Limited only. This increase would be higher and figures would be meaningless had large shipments falling under the weight/volume rule not been removed and shown separately. Express reflects an increase of only 3.5 per cent but



will presumably move at the same speed as freight, so in reality becomes a freight shipment. Freight shows an increase of 73.8 per cent in costs and when combined with the express increase of 3.5 per cent averages out when volume is considered to 49.1 per cent.

Outgoing shipments falling under the weight/volume rule that were deleted from

the survey figures in the previous paragraph are shown below. These figures indicate how this rule causes definite hardship to our company shipping light bulky products. In this particular case, the density rule of 10 lbs. per cu. ft. raises the shipping cost from \$2,258.00 LCL to \$6,903.00 LCL or \$6,102.00/carload. A minimum increase of 170 per cent.

ANALYSIS OF C.N.R. BILLING JUNE, JULY, AUGUST, 1967  
ATLANTIC BRIDGE CO. LIMITED ONLY  
LESS THAN CARLOAD SHIPMENTS

Shipments Incoming & Outgoing	Number of Bills	3 Months	1 Year
Total of old \$ costs .....	202	2,376	9,503
Total of new \$ costs .....	202	3,542	14,169
Increase in \$ costs .....	202	1,167	4,666
Increase % .....		49%	49%
Freight old \$ Costs .....	65	1,542	6,170
Freight new \$ Costs .....	65	2,679	10,718
Increase in \$ Costs .....	65	1,137	4,548
Increase % .....		74%	74%
Express old \$ Costs .....	137	833	3,333
Express new \$ Costs .....	137	863	3,451
Increase in \$ Costs .....	137	30	118
Increase % .....		3.5%	3.5%

OUTGOING SHIPMENTS UNDER THE VOLUME/WEIGHT RULE  
LUNENBURG, N.S. TO GASPE, P.Q.

Carloads	Weight	Old \$ LCL	New \$ LCL	Carload
9	72,540 #	\$2,258	\$6,903	\$6,102
Total old \$ Costs .....			\$2,258	
Total new \$ Costs .....			\$6,102	
Increase \$ Costs .....			\$3,844	
Increase % .....			170%	

The foregoing figures are direct costs and give some idea of the effect of Tariff 100 on this business. It would be better to provide an example of a completed job or contract, so that the relationship could be established

between increases in transportation costs and the total job costs. The following is such an example and demonstrates the weight/density rule.

Job: Quebec United Fishermen, Fox River, P.Q.

Value: \$118,000.

Contract: To supply and install fish processing equipment.

Transport: C.N.R. Lunenburg to Gaspe, P.Q. LCL shipment, cars 3,600 ft.<sup>3</sup>

PCS	Weight	Old \$ LCL	New \$ LCL	Carload
3	4,000 lbs.	\$122	\$767	\$678
25	10,400 lbs.	317	767	678
18	11,420 lbs.	348	767	678
23	10,040 lbs.	351	767	678
51	8,940 lbs.	273	767	678
24	6,400 lbs.	195	767	678
34	6,960 lbs.	212	767	678
17	4,730 lbs.	144	767	678
52	9,650 lbs.	294	767	678
		\$2,258	\$6,903	\$6,102

Old \$ Costs Transportation .....	\$2,258
New \$ Costs Transportation .....	\$6,102
Increase \$ Costs .....	\$3,844
Increase % .....	170%

This example indicates an increase of \$3,844, or 3.3 per cent in the total contract price. In this day of keen competition, this is enough to lose a contract.

Another example is some shipments from our industrial fibreglass division. The raw material is compact and heavy, the products are light and bulky. Every effort is made to

ship economically, but for special delivery reasons, certain shipments go forward via C.N.R., mostly by express. The following figures represent a sample of this account and again show the effect of the weight/density rule as it affects light shipments that were formerly shipped by express. The increase amounts to 43 per cent.

Shipments	Via	To	Date	Old \$ Cost	New \$ Cost
24	Express	Various Customers	1967	\$588	\$841

### RECOMMENDATIONS

There is no doubt that the railways have increased their freight rates to a degree unacceptable to most shippers in the Maritimes. It is probable that individual companies will feel the impact of these changes in varying degrees. This brief has described several aspects of the increases, however, it is difficult to arrive at a composite figure representing the total dollar effect on our business. It is hard to make a yardstick that will measure this effect. The following recommendations cover the problem areas and suggestions are made that might measure our difficulty.

First, major relief is required from Tariff 100.

Second, the weight/volume freight rule must be discontinued.

Third, the old "non-competitive less than carload class and commodity rate" should remain in effect.

Major relief from Tariff 100 should be accomplished by a subsidy to the railway. This has been the method in the past and in the absence of better means, will probably be the method of the future. This subsidy should be sufficient to bring Tariff 100 close to the

old rates. It could be accomplished by assessing the rate rise from the briefs presented or in some more sophisticated manner and applying a subsidy to achieve the desired result.

The second recommendation regarding the weight/volume rule of ten pounds per cubic foot should be easier to solve. Major reduction in the pounds per cubic foot rule would provide the relief this company requires in shipping light products, but would still provide a substantial increase to the railway.

The third recommendation that the old freight rates should remain for sometime, is the best way to assure railway co-operation. It is in their interest that this rate structure be cancelled as soon as possible.

### CONCLUSION

An attempt has been made to point out the hardships imposed on our company by Tariff 100. This brief shows authentic cases of transportation costs with documents and work sheets retained for examination. Our concern is for our future prosperity and that of the region in which we live. It is our earnest hope that this submission will be received in a spirit of mutual trust and concern for the problems involved.

J. F. Beveridge,  
Purchasing Agent,  
Atlantic Bridge Company.



## APPENDIX A-35

BRIEF BY  
STEEL FURNISHING COMPANY  
LIMITED  
BEDDING MANUFACTURER  
NEW GLASGOW  
NOVA SCOTIA

February 9, 1968

The Steel Furnishing Co. is located in New Glasgow, Nova Scotia and is a manufacturer of mattresses, Box Springs, Beds, Couches, etc. The Company has been in operation for over 60 years and does about 90 per cent of its business in the Atlantic Provinces. It is an extremely competitive business and the Company has existed through the years on the basis of a good product, good service and a certain amount of transportation "protection" in that it cost considerably less to deliver one, ten or fifty of the above mentioned products to Atlantic Province points than it did from Quebec or Ontario manufacturing centers.

The recently initiated "new" LCL rates effect us as a *manufacturer* in the following ways:

(1) A large percentage of our raw materials have to be brought in from Ontario and Quebec. A major portion is in the Carload Class and these rates are fair. The new CNR LCL rates with pick-up and delivery on both ends are now very high but can generally be avoided by using CNR Station to Station (old rates) or Forwarding Company services. Basically, incoming LCL goods are not too great a problem.

(2) The transportation costs for our goods to Atlantic Provinces destinations is where the new LCL rates are unfair. See schedule A for detail. The Railway is the only carrier that serves all of our customers. The largest Nova Scotia trucking firm is Eastern Transport Ltd. with a branch located in New Glasgow. They are owned by the Railway.

Of our total shipments seventy percent must be routed by the Railway as there is no

other mode available. This includes a large market in Newfoundland. However by keeping the St. Lawrence open all winter the Forwarding Companies are offering to Quebec Shippers far lower rates than the Canadian National Railway's which we are forced to use.

The average increase in transportation costs with the new rates for our products to Atlantic Provinces destinations is 110 percent. From schedule "A" it is evident that it is considerably cheaper to send these products from Toronto to a destination such as Halifax by Forwarding Companies (using CNR facilities) than it is from New Glasgow to Halifax (100 miles). The spread is greater from Montreal and the LCL rate from the Atlantic Provinces to Montreal or Toronto makes shipments to these destinations out of the question.

Our recommendations are as follows:

1. Shipments of goods from the province of Quebec and West for further manufacture in the Atlantic Provinces whether LCL or carload be carried at substantially (70 percent) lower rate than those ready for market. A certification similar to the one required for Federal Sales Tax exemption by a manufacturer would distinguish between the two. This will greatly assist secondary industries to develop in the Atlantic Area. This will also reduce the Railway's present cost of returning so many empty cars to the province of Quebec and West.

2. Reduce the 10 cubic feet base to five with the present rates applying. This will still result in substantial increases in revenue for the Railway and prevent loss of jobs for many of their workers.

3. Reduce by 50 percent the old LCL rates for shipments from station to station for the movement of shipments originating in the Atlantic Provinces which are consigned to areas in the Province of Quebec and West. This will help bring back some of the original intentions of the Maritime Freight Rate Act.

We believe the time has come to provide equal opportunity as laid down by the Fathers of Confederation no matter where a person may live in this country. Secondary industry is vital to the Atlantic area.

We therefore express the hope that the House of Commons Standing Committee will give careful consideration to:

(a) The setting up of reasonable rates for the movement of shipments within the Atlantic area.

(b) The setting up of reasonable rates for the movement of shipments to the Province of Quebec and West.

We wish to express our appreciation for this privilege of presenting some thoughts on an important subject of mutual interest and concern to all people in the Atlantic provinces.

STEEL FURNISHING COMPANY  
LIMITED

G. F. Woolaver,  
Sales Manager.

Schedule A

Steel Furnishing Company Limited  
New Glasgow, N.S.

February 9, 1968

Comparison of Transportation Cost

Principal Products are Spring Filled Mattresses and Box Springs

Weight per cubic feet is 4.25 pounds

Shipping weight is 60 lbs. each

From Toronto To:  
Halifax, N.S.

Mode and applicable rates	300 lbs.	750 lbs.	1000 lbs.	2000 lbs.	5000 lbs.
Tormon Assembly Agency Ltd. and Halifax Shippers' Association using CNR cars with them honoring each and every claim for damages (not including pickup and delivery) .....	\$ 2.11 cwt	\$ 2.11	\$ 2.11	\$ 2.11	\$ 2.11

From: New Glasgow, N.S.  
To: Halifax, N.S.

New non-carload rates ..	1.57	1.51	1.35	1.24	1.07
Actual rates (Based on 10 lbs. per cubic foot weight density pole) ...	4.20	4.14	3.60	3.30	2.85

From: New Glasgow, N.S.  
To: Toronto

New non-carload rates ...	3.77	3.72	3.68	3.64	3.41
Actual rates (Based on 10 lbs. per cubic foot weight density pole) ...	10.00	9.89	9.80	9.70	9.09

APPENDIX A-36

GARIKA LIMITED  
P.O. BOX 791 LIVERPOOL, N.S.

February 9, 1968.

Mr. R. V. Virr, Clerk  
Standing Committee on Transport &  
Committees  
House of Commons  
Ottawa, Ontario.

Dear Sir:

We, Garika Limited, respectfully submit the enclosed transportation costs and remarks which have affected our operations since the endorsement of the new Canadian National Express Freight Rates.

We have relocated our plant in the last year to the Maritimes, in order to serve our Canadian Market better with our specific commodities. At that time we did receive L.C.L. Freight Rates which were an important factor regarding the service, cost available to our customers. Through L.C.L. Freight we were able to supply a common market with our competitors, who in fact are only located one hundred miles away from the customer.

The cost related to the new Express Freight Rate has made it impossible to compete with other manufacturers in Ontario, and although a substantial increase in shipping rates has been realized, no significant change of service or speed of delivery was experienced.

NON CARLOAD RAILWAY FREIGHT

1. Particulars of traffic movements:

Unless we are instructed by our customer to ship via a forwarding agency (Tormon Assembly, Atpack, Muirhead, etc.) all finished products are expedited in the following manner—under 25 pounds, via parcel post; over 25 pounds, L.C.L. Freight.

When the company was considering moving to Milton, N.S., it was understood that L.C.L. Railway Freight was going to be the prime source of transportation for incoming raw materials and outgoing finished products to western markets.

On December 10, 1966, a comparative cost study was done between London, Ontario, and Liverpool, N.S., to and from various ship-

ping points across Canada. It was at that time decided that L.C.L. Freight would cause the least significant change in traffic cost without loss of efficiency in service.

Example:

Shoes shipped from London to	
Toronto .....	1.44/cwt
Shoes shipped from Liverpool	2.87/cwt
Leather shipped to London	
from Quebec .....	2.54/cwt
Leather shipped to Liverpool	1.92/cwt
Montreal, via L.C.L. Freight .	2.87/cwt
	2.06/cwt
Kitchener via L.C.L. Freight ....	.76
	2.70/cwt

2. Names and locations of competitors:

Lyons of London—Glencoe, Ontario  
Footwear Fashion—London, Ontario

3. Method of transportation used by competitors to serve common markets:

Forwarding Agencies; Transport Truck Lines.

4. Effect on raw material and components on cost price and position company put in relative to competitors. How is it received?

The effect of the new Express-Freight rate can best be illustrated by a few comparative examples:

6 Shoe Cartons, containing 36 pr. each	
being shipped to Toronto did cost	
via L.C.L. Freight .....	\$ 8.61
same shipment via Truck .....	13.20
same shipment via Express-Freight ..	13.95

10 bundles of Leather from Kitchener to Liverpool:

via L.C.L. Freight .....	\$10.80
via Truck .....	18.84
via Express-Freight .....	17.20
Shipment of 4 cartons of 30 pr. slippers	
to retailer in Quebec City:	
via L.C.L. Freight .....	\$1.99
via Truck .....	7.50
via Express-Freight .....	5.50

A Freight increase, minimum of \$.10 per pair, is realized without any significant improvement of service.

Yours very truly,  
Jack E. Vermier  
Garika Limited



# APPENDIX A-37

## FEDERAL PRODUCTS LIMITED MANUFACTURERS—IMPORTERS

TRURO, NOVA SCOTIA, CANADA

Mr. R. V. Virr  
Clerk of Standing Commission  
on Transport & Communication  
House of Commons  
Ottawa

We request a presentation before your Commission sitting in Halifax February 21 and February 22 re Freight Rates.

COMPANY: Federal Products Limited,  
Truro, N.S., C. E. Lewis, President.

PRODUCTS MANUFACTURED: Slippers,  
Hosiery, Footlets, etc.

RAW MATERIALS: Yarns, Cloth, Thread,  
Elastic, Plastisol, Rubber, Poly bags, Boxes,  
decorative material, etc, brought in from  
Central Canada. Increased Freight and Ex-  
press charges on raw materials inbound add  
an estimated 3 to 5 percent to the cost of  
finished goods.

FINISHED GOODS: Sold all across Cana-  
da. Biggest volume sales in Central Canada.  
Finished Goods are light in weight and very  
bulky therefore, the new Non Carload Rail-  
way Rate increases based on density, number

of pieces, etc, imposes additional costs on our  
product, which we can ill afford.

TRANSPORTATION USED BY COMPETI-  
TORS: Main competitors in hosiery, and slip-  
per manufacturing are located in Central  
Canada close both to the source of supply and  
to the largest market area. These companies  
experience the minimum ill effect from the  
increased freight rate structure for two rea-  
sons (a) location, (b) advantage of being ser-  
viced by highly competitive door to door  
commercial rate transport companies.

EFFECTS OF INCREASED COSTS: Each  
order has to be individually studied to see  
which is the best method of shipment, dimen-  
sions, rates and weight all checked. This  
makes a slow up in shipping and additional  
labour cost. We are studying redesign of  
packaging and boxing to conform with the  
dimensions as stipulated in the new rate  
structure.

Attached is "Schedule A" re comparative  
rates for shipment by postage and express,  
reflecting increased cost.

2/12/68

EXAMPLES OF ADDITIONAL SHIPPING CHARGES

TRURO TO TORONTO

Parcel Post	Weight	Old Rate	New Rate	Carton Size	Increase
(a) 24 Dozen Pairs .... Mother & Daughter Hosiery	25 lbs.	3.05	3.60  3.70	17x14x26  (Oversize)	  21.17%
(b) 15 Dozen Pairs .... Ladies Triple Roll Cuff	15 lbs.	1.94	2.20	19x14x10 (Not Oversize)	13.4 %
(c) 3 dozen Pairs .... Ladies Slippers	23 lbs.	2.08	2.35 .50 .30	Oversize 23x15x5 Insurance (3 cartons)	51.44%

The above rates have additional charge for insurance as follows

\$ 1-\$ 10 .....	10¢
10- 50 .....	20¢
50- 100 .....	30¢

NEW RATE IS PLUS .50¢ FOR OVER 72" LINEAL MEASUREMENT

Express

(d) 35 Dozen Pairs .... Cotton Bobby Sox	35 lbs.	3.35	4.45 Plus 10¢ oversize	17x14x26	35.82%
(e) 30 Dozen Pairs .... Cotton Bobby Sox	30 lbs.	3.05	4.45 Plus .10¢ oversize	17x14x26	49.18%
(f) 5 Dozen Pairs .... Ladies Slippers	35 lbs.	3.35	4.25 Plus .20¢ oversize	25x23x28	32.83%

NEW RATE IS SUBJECT TO 2 ADDITIONAL CHARGES

1. 20¢ for over 92" LINEAL MEASUREMENT
2. 20¢ for each ADDITIONAL CARTON

## APPENDIX A-38

## BRIEF

Submitted by

POLYMER INTERNATIONAL (N.S.)

LIMITED

TO

COMMITTEE ON TRANSPORT AND  
COMMUNICATIONS

Ottawa, Ontario

Polymer International (N.S.) Limited is in the process of building a \$2,000,000 Plastics Fabricating Plant in Truro, Nova Scotia.

Production in this plant is expected to start on or about September 1st, 1968. For this reason, we cannot supply any concrete information as to what effect the increases in freight rates will have on our profit potential in this new venture.

I might just briefly state the roll of transportation in our proposed venture to give you some idea of the effect it could have on our business.

All our raw materials will come from outside the Atlantic Provinces. This will consist of approximately 5,000,000 lbs. of plastic resins per year which sell for an average of 15 to 20 cents per pound. On these materials an increase of even 1 cent per lb. of freight becomes a very real cost in our operations.

Supply materials will be all brought into our plant in less than carload quantities and, here again, freight rates on these items such as paper cores, color concentrates, plastics additives, printing inks, and solvents, will be greatly affected by any increases in freight rates.

As our markets will be all of Eastern Canada, we would certainly be at a disadvantage if freight rates from the Atlantic Provinces to Quebec and Ontario were raised as our products are not high profit items but rather high volume low profit items.

If the intent of your committee is to try to determine the steps necessary to satisfy the needs of business in this area, might I just make one suggestion which is in fact in use in the U.S.A. and which might be an answer to the problems facing the people in the Atlantic Provinces.

At the present time more freight moves into the Atlantic Provinces than from this region. This is logical in that most of the products sold here are produced in Quebec or Ontario.

Although the population in the Atlantic Provinces do not enjoy the same level of income as the rest of Canada, they are further penalized by the fact that they must pay higher prices for the goods they buy which are produced in Quebec or Ontario because of the additional freight involved.

Would not a more logical step in equalization of price be to propose a law that all goods must be supplied or sold on a delivered basis. This would mean that in the case of an automobile the delivered price in Halifax would be the same as Toronto or Montreal. This would require the manufacturer to price his product to allow for the variance in freight but would give the people of this region a fair price for their goods and in our own case would tend to make us more competitive with our products.

I am convinced that this approach would help the local consumer as well as allow the freight people to charge a fair price to allow them a profit on this movement.

This solution would certainly answer the problem of shipments into the Maritimes. As for shipments out of the Maritimes to Eastern Canada, I feel that the present subsidy on freight to Rivière du Loup should be maintained to help keep industry in the Atlantic Provinces competitive with manufacturers in Quebec and Ontario.

Your recommendations on this whole problem are vital to our business as well as any new or existing business in the Atlantic Provinces and we trust you will favor us with the kind of rate structure needed to keep this area of the country competitive with other areas which enjoy a definite advantage in being closer to the centers of population.

Yours sincerely,

PETER VANIER, PRESIDENT  
POLYMER INTERNATIONAL (N.S.)  
LTD.



## APPENDIX A-39

February 13, 1968

Mr. R. V. Virr,  
Clerk,  
Standing Committee on Transport &  
Communications,  
House of Commons,  
Ottawa, Ontario

Dear Sir:

With reference to the forthcoming Atlantic Provinces hearings on Transport by your Committee, we respectfully submit the following:

The undersigned companies are engaged in the processing of fruits and vegetables in the Annapolis Valley of Nova Scotia. One of the undersigned, in addition to processing, is also involved in the marketing of fruit in the fresh state. These companies are all wholly owned by residents of the Atlantic area and are, we believe, a vital factor in the economy of that area.

While a very substantial percentage of the production of these factories finds a market in the Atlantic Provinces, it is vitally important that a more substantial percentage of production moves to the larger markets of Canada outside the Atlantic Provinces.

The four companies concerned operate eight factories involving an investment in assets in excess of five million dollars. The major industry of the Annapolis Valley of Nova Scotia is Agriculture, and for that reason successful operation of processing plants to handle the product of the farm is vitally important to the general economy of the area.

While great progress has been made by the processors of the Annapolis Valley in supplying the requirements of the consumers of the Atlantic area during the past few years, the major factor that has prevented the development of markets for their products in other parts of Canada has been high cost of transportation of products of relatively low value in relation to weight.

While climatic conditions in the Atlantic area do not permit the growing of all fruits

and vegetables for processing purposes, there are many products that can be grown in the area of excellent quality and suitable for processing in the area and distribution far beyond the Atlantic Provinces if transportation costs would permit.

Bearing in mind that the outlet for fresh fruits and vegetables grown in the area is pretty much confined to the Atlantic market, it means that if we are to have an expanding agriculture economy in the area, the market for the increased production must be found through processing channels and the processors in turn must have a market much larger than that of the Atlantic area if they are to handle for the farmers an ever increasing agriculture production.

In addition to the advantageous effect that an ever expanding processing industry can have on the agriculture industry of the area, sight must not be lost of the fact that these plants provide employment for 900 employees involving annual payrolls of over one million dollars.

We therefore desire to draw your attention to three subjects which we consider of vital interest to the well-being of our industry. These are as follows:

1. *Overland Freight Costs*

As processors vitally interested in developing and expanding the fruit and vegetable processing industry in the Atlantic area, we sincerely believe that the freight rate structure over the past 20 years has worked very seriously to our disadvantage.

In Central Canada, with heavy concentrations of populations and manufacturing, those processors of comparable products in such provinces as Quebec and Ontario enjoy to a much greater degree a choice of transportation between trucks and railways, with a consequent competitive factor. The limited choice available in this area between the two modes of transport has little or no effect on respective rates.

To cite only one example of our increasing handicap we submit the following:

Comparison of Rail Rates on Canned Foods  
from Annapolis Valley Points to Montreal

vs.

Thornbury, Ontario to Montreal

(Rates in cents per hundred pounds)

To Montreal			
From:		From:	
Berwick, N.S.		Thornbury, Ont.	
Kentville, N.S.		Difference	
Port Williams, N.S.			
Date	Rate	Date	Rate
1947 .....	45	1947 .....	37½
1953 .....	80	1953 .....	61
1955 .....	80	1955 .....	42½
1955 .....	79	1955 .....	42½
1957 .....	77	1957 .....	42½
1958 .....	89	1958 .....	42½
1959 .....	69	1959 .....	42½
1967 .....	76	1967 .....	48

We understand that the freight content in the gross wholesale price of canned foods averages 7 per cent nationally. (Source—Economist Intelligence Unit). Due to our geographical position with respect to centres of population the freight content in the wholesale price of our merchandise averages 14 per cent. It therefore follows that if the national average is 7 per cent, the average freight content in the wholesale cost of similar goods produced near the centres of population, namely Ontario and Quebec, must be considerably less than 7 per cent.

Due to our reliance on sources in Quebec and Ontario for much of our supply material such as equipment, repair parts and packaging supplies, inward freight costs, if included in the above example, would result in even a greater spread.

The handicap to us portrayed by this differential must be offset in various phases of our operations; namely, lower wages as compared to our Central Canadian counterparts, lower payments for produce and lower returns per dollar of investment.

We sincerely believe that were we to be given that position on freight rate costs that we enjoyed in 1947 in relation to our competition from Ontario points, we could materially

increase the movement of processed food products from the Atlantic area to other parts of Canada.

While we have fought strenuously for consideration on freight rates over the years, we have certainly not been able to convince the railroads to the extent at least of having them restore us to our relative position of 1947.

2. Facilities for Exporting

Annapolis Valley processors suffer a very basic handicap with respect to our ability to generally exploit off-shore markets due to the extremely limited ocean service from Halifax.

With the notable exception of a twice monthly service to Liverpool, England, provided by Furness, no other year-round scheduled ocean services are available to any other British port.

As Britain is, by far, our most important export market for both fresh and processed goods, the adverse effects of this situation certainly must be apparent.

We urgently need year-round services to such major ports as London, Glasgow and the Bristol Channel.

Britain is by far and away our major market for solid pack (canned) apples yet we are constantly handicapped by our utter inability

to serve such a major outlet as Scotland, for example, except on a most uncertain and spasmodic basis.

This and other similar disservices to British ports is placing an extraordinary handicap on our ability to exploit not only an important but vitally necessary market. The adverse effect of this should not be difficult to assess.

Totally, Valley processors continuously receive countless requests from potential customers throughout most of the world and it is a frustrating experience to even attempt to make sales with new customers in new areas to learn once again that there is simply no way to get our product to these markets.

Many examples of this could be given as we experience this futile exercise nearly on a weekly basis.

To cite just one instance, it is a fact that after having made firm sales to such potentially major markets as the Netherlands and Sweden, the goods had to be routed via Montreal.

It surely is not difficult to assess the economics of this situation.

In the instances mentioned, the overseas customers concerned all reordered but the orders were regretfully declined for the reasons given.

Sweden, over recent years, has become a rather major market for fresh apples from Nova Scotia. One of the companies making this submission is vitally interested in the marketing of fresh apples as well as processed products. It made sales to Sweden during the autumn of 1967.

Totally these sales amounted to approximately \$50,000 and with the very reasonable prospect of further such sales during the current apple season only to learn that not only was an ocean service lacking but carriers serving that market were not even interested in diverting their ships to Halifax for what would have amounted to about \$15,000 freight.

At a point when the sale was practically lost because of the seller's inability to find transport, a service was finally found and the delivery completed, but only after a comparatively heavy cost of time and money to the shipper, accompanied by the resultant frustrations of attempting to keep the original orders from being cancelled.

There was a period when at least during the closing of the St. Lawrence we could

reach many major world markets but this service has now nearly completely disappeared.

It is often erroneously stated that Nova Scotia enjoys an advantage in serving certain export markets in Europe in particular because of its geographical location. This, for all practical purposes, is a complete myth because of the simple fact that ocean rates to all European points are precisely the same, whether the goods originate in Montreal, Halifax, Boston or New York. Halifax is at least 36 or 48 hours less sailing time to European ports, as compared to Montreal, and yet we say again freight costs are precisely and exactly the same.

Every knowledgeable person today is most certainly aware that dramatic changes are taking place with respect to the handling of goods, particularly in the areas of containerization and palletization.

Most assuredly in the immediate term ahead, shippers who can containerize their goods will enjoy the volume business and conversely those who can not will find their sales diminishing.

The Americans are already exploiting this development but even they are only in the initial stages of this dramatic and most significant break-through in handling.

Most of the major ocean carriers of the world, working either in consortium or independently are studying and/or practically applying the use of containerized shipments.

To give one only example, a major British steamship line is presently building three cellular type freighters, each holding 500 containers, with an expended total capital outlay of no less than a budgeted figure of \$30 million.

The program provides for these most modern vessels to be sufficiently reinforced so that they will be able to serve St. Lawrence ports 12 months of the year. Montreal and other St. Lawrence ports will necessarily have to adapt their respective facilities to meet this situation and will have a tremendous advantage over local shippers.

What of Halifax? To the best of our knowledge the containerized service for this year-round Canadian port has not even reached the planning stage.

As something of a compromise, some local shippers are presently palletizing fresh apples but even this improved method (over loose



units) is resulting in varying degrees of success because of the fact that with the notable exception of the Furness vessels serving Halifax most other ocean carriers are not adaptable or properly equipped to handle even these units.

To enhance and improve our service to British customers of our canned goods, we would also like to palletize our products.

But whereas there is a reasonable and economic ocean freight differential prevailing with fresh apples, no such reasonable or economic differential prevails with respect to palletized canned goods.

The Conference carriers presently allow a freight cost differential of only \$2 per long ton if canned goods are palletized. This differential should and must be a minimum of \$3 per short ton if we are to palletize without incurring a direct monetary loss.

All this is a bit ironic when one considers the fact that we deliver canned goods to ship-side to Halifax and some lines at least then palletize the same goods prior to loading aboard the ship.

This practise, to us, borders on the ridiculous.

The total lack or insufficiency of refrigerated space out of the port of Halifax is also a

very practical detriment. Among others, a substantial sale to the West Indies was just recently lost as no refrigerated space suitable for frozen foods was available out of Halifax.

### 3. Highways

We urge acceleration of construction of all-weather type arteries in the Atlantic Provinces, the completion of which would substantially reduce the severe handicap suffered by our industry annually as a result of the approximate six week period of weight restriction.

Yours very truly

M. W. Graves & Co. Limited

Traffic Manager

ANNAPOLIS VALLEY CANNERS LTD.

General Manager

SCOTIAN GOLD CO-OPERATIVE LTD.

General Manager

CANADA FOODS LTD. (Pickle Div.)

Traffic Manager

CANADA FOODS LTD. (Fruit Div.)

General Manager

## APPENDIX A-40

Submission by

L. B. SELICK, HALIFAX

TO THE HOUSE OF COMMONS  
TRANSPORTATION AND  
COMMUNICATION COMMITTEE

Submitted that the House of Commons Transportation and Communication committee consider relocation of rail lines in the Halifax-Dartmouth area in an effort to improve the operational efficiency of both freight and passenger traffic in the region. Some of the factors which suggest substantial changes are:

1. The sporadic, unplanned manner in which rail lines have been laid since the first line from Halifax to Fall River was constructed in 1852.

2. The spectacular growth of residential and industrial areas on the Dartmouth side of the harbor, hence the need for better rail service.

3. The general shift in population from Halifax to its western suburbs.

4. The need for proper utilization of Bedford Basin—containerized shipping with suitable backup land on the Dartmouth side; the need for highway and tourist developments on the western slopes, and the need for aesthetic and recreational development of this natural resource.

5. The need for eventual rail commuter service in the metro area, particularly in winter, made more pressing by the steep terrain and the high cost of automobiles.

6. The need for adequate highway outlets from Halifax peninsula.

7. The need for the efficient marshalling of freight in yards suitably located to serve both sides of the harbor.

8. The present location of rail lines precludes proper planning for metropolitan transit and transportation.

It is noted that Dartmouth was originally selected as the terminus of rail lines.

*Recommendations:*

1. Construction of a rail bridge at the Narrows with at least a flag stop in Dartmouth to place this rapidly growing area on the main line. This plan calls for land reclamation at Fairview Cove to provide turning radius for trains to follow the northern slopes of the peninsula, over the rail bridge and on to Windsor Junction by the most efficient route.

2. Construction of suitable marshalling yards between Dartmouth and Windsor Jct.

3. Removal of most of the thirty miles of virtually unused track in north Halifax to make way for highway development.

4. Removal of the double track (and eventually the marshalling yards) from the western slopes of the Basin. This land is now more valuable for other purposes.

5. Some relocation of the southwestern rail line to serve more efficiently the expanding western suburbs and the County industrial park.

6. Plans for a future inter-city rail commuter service utilizing present rail facilities which are located near to industrial areas, military establishments, shopping centres, hospitals, schools and colleges.

7. Close collaboration with the Halifax, Dartmouth and County, Regional Planning Commission to work out the most appropriate utilization of rail services in conjunction with other means of transit and transportation.

Respectfully submitted,

L. B. Sellick,

17 Tremont Dr. Halifax.

APPENDIX A-41

February 12, 1968

House of Commons Standing Committee on  
Transportation and Communication

Gentlemen:

We lay before you a brief example of how increases in transportation costs have worked to the detriment of one Nova Scotian industry.

In August 1965, Maritime Cans Limited, located in Woodside Industrial Park, Dartmouth, manufacturers of aluminum beer cans, obtained two substantial accounts in Montreal, namely, Molsons Brewery and Dow Brewery.

Sales to these accounts during the two fiscal years which Maritime Cans Limited enjoyed Montreal business, were as follows:

	Fiscal 1965-66	Fiscal 1966-67	Fiscal 1967-68
Molsons—000's cans .....	11,127	10,821	—
Dollars Sales .....	\$ 377,766	\$ 375,393	—
Dow—000's cans .....	4,814	4,919	—
Dollar Sales .....	\$ 164,651	171,031	—
Total Montreal 000's cans .....	15,941.4	15,740.8	—
Dollars .....	\$ 542,417	\$ 546,424	—

These two accounts represented slightly in excess of 50 per cent of Maritime Cans Limited beer can sales and production for these two years.

Maritime Cans Limited's selling price per thousand can bodies was established at the time the accounts were obtained (August 1965) at \$33.95 per thousand. This price was

maintained until April 1, 1967, at which time Maritime Cans Limited increased the price 3 per cent to \$34.97, in an effort to recover some of the margin lost to increased operating costs. Within a month after the price increase was announced, our customers were telling us not to increase our floor stock beyond existing levels and by August 31, 1967, sales and deliveries to these accounts ceased.

SCHEDULE OF INCREASED TRANSPORTATION COSTS

Date	C.N. Piggyback Rate/Cwt	Minimum Weight Pounds Actual	Cost Per Load of 97,280	Cost/M Cans	Increased Cost Per M Cans	Cumulative Cost Increase
August 1965 (Schedule 1 attached)	.... 1.27	6,000	\$ 76.20	.78		
October 1965 (Schedule 2 attached)	.... .99	15,000	148.50	1.52	.74	
October 1966 (Schedule 3 attached)	.... .90	24,000	216.00	2.22	.70	1.44
March 1967 (Schedule 4 attached)	..... .99	24,000	237.60	2.44	.22	1.66



While any benefits which may be derived from this presentation could conceivably fall in the category of locking the barn door after the horse is gone, some factors are significant:

1. A Nova Scotian industry has lost over 50 per cent of its sales volume to Montreal based industry.

2. The Railway has lost annual west-bound traffic in excess of 160 trailerloads per year.

3. Increases in operating costs (of which transportation costs were a signifi-

cant factor) contributed to the loss of business.

4. By their very nature, transportation companies such as Canadian National Railways have a much easier task raising rates than competitive industries raising prices to a large customer.

Yours very truly,

R. F. Kirby

Comptroller

Maritime Cans Limited

# APPENDIX A-42

Brief by

EASTERN DRUG SERVICES

HALIFAX, N.S.

February 21, 1968

Mr. Chairman and Gentlemen:

Eastern Drug Services is the only local full-line drug wholesaler in the provinces of New Brunswick and Nova Scotia. From warehouses in Fredericton, Saint John and Halifax, Eastern Drug Services distributes pharmaceuticals, health and beauty aids and surgical supplies, together with a wide range of products used by doctors, hospitals and pharmacies.

The purpose of this presentation is to draw to your attention that recent increases in LCL rates to the Maritime Provinces may well negate efforts now being made to reduce the price of drugs to the consumer.

The net profit realized by Eastern Drug Services is less than one per cent and this small margin is being eroded by ever-increasing costs, most notably the increase in LCL rates on the products distributed.

Because the market being serviced is small and the nature of the products being distributed, virtually all goods received by Eastern Drug Services are in less-than-carload lots. All shipments made by Eastern Drug Services are in less-than-carload lots.

Some manufacturers pay the freight on their products shipped to wholesale distributors. Because of increased transportation costs, however, the size of orders to qualify for prepaid shipment has been increased. The dilemma in which Eastern Drug Services finds itself is whether to order more stock than the demand indicates should be bought, to save incoming freight, or whether a smaller quantity should be bought and freight paid on this "less than the manufacturers' required minimum"! Either decision results in increased costs. Because of its low margin, Eastern Drug Services is faced with the inevitable decision that the increased cost must be passed along to the consumer.

As an example of the impact of the increase in LCL rates the following is submitted:

In January 1968, Eastern Drug Services paid 35 per cent more in freight charges on incoming shipments than was paid on a like quantity of merchandise in January 1967.

In September 1967 freight paid on outgoing shipments from Eastern Drug Services amounted to 0.6 per cent of net sales, with no change in delivery policy. In January 1968 outgoing freight was 0.7 per cent of net sales—an increase of 16½ per cent.

It may be impossible to continue the distribution of many products, without greatly increased prices being charged to the consumer.

For example:

	Transportation Cost prior to September 1967	Present Transportation	Increase
1 Case Feminine Napkins shipped from Halifax to Sydney .....	1.80	3.00	66%

In the case of narcotic or controlled drugs, particularly liquids which cannot be shipped by mail, a surcharge of three dollars per shipment, in addition to the increased LCL rates, is proving a further hardship. These drugs have to be shipped as the need arises and often cannot be included in a large order.

One example will illustrate the point.

Tussionex, a prescription drug, 16 oz. liquid	
Express Halifax-Sydney	
prior to September 1967 .....	\$ 1.80
present transportation .....	\$ 3.00
plus \$3.00 surcharge .....	3.00
	<hr/>
	\$ 6.00

The wholesaler's gross profit on this product is \$1.43.

Since it is impossible for the wholesaler, or indeed the retail pharmacist, to absorb this freight cost, a higher price to the consumer cannot be avoided.

These are two examples only, but it should be noted that the general rate for drugs has risen from \$2.25 per hundred pounds to three dollars and seventy cents, an increase of more than 60 per cent.

In common with other low margin distributors, notably the food industry, Eastern Drug Services cannot continue to absorb increased

costs of providing an essential service to the people of the Maritime Provinces.

The burden of increased freight costs is one which the people of this area can ill-afford to bear and Eastern Drug Services urges you to act to correct the inequities which exist in the present LCL rates.

Respectfully submitted,

EASTERN DRUG SERVICES

G. R. Baskwill

Executive Vice-President



## APPENDIX A-43

BRIEF BY  
HALIFAX BOARD OF TRADE

February 14, 1968

The Chairman and Members  
Standing Committee on  
Transport and Communications  
OTTAWA, Ontario

Mr. Chairman, Gentlemen:

The Halifax Board of Trade has a membership of 2800 persons representing more than 1000 Halifax business firms, many of which are directly affected by the September 5, 1967 increase in non-carload freight rates.

We are deeply concerned about the effects which these substantially increased costs will have on our Atlantic economy.

Transportation problems in the Atlantic Provinces are normally dealt with by the Maritimes Transportation Commission, an organization initiated by the Maritime Provinces Board of Trade, of which this Board is a major and active member. (The Maritimes Transportation Commission is financially supported by the four Atlantic Provinces' Governments.)

The Maritimes Transportation Commission has placed before the Minister of Transport a comprehensive submission in respect to the new non-carload rates on behalf of the Atlantic Provinces' Governments as well as business and industry in the region. It is not our intention, therefore, to burden the Committee with detailed information on this subject except to endorse the submission of the Maritimes Transportation Commission to Transport Minister Hellyer on December 13 and to express our concern over the effect these rates will have on both the economic growth of the region and the cost of living.

Any increase in cost whether it be from railway rates, increased wages or for any other reason must eventually be passed to the consumer, in this instance the 2-million residents of the Atlantic Provinces who will, because of increased transportation costs, suffer a further reduction in their standard of living. Information obtained today from the

Dominion Bureau of Statistics, shows that food costs in Halifax have increased from 136.7 January 1967 to 143.1 January 1968—an increase of 6.4 per cent. In December 1966 the food index was 137.4 and in December 1967 was 143.1, an increase of 5.7 per cent.

Residents of the Atlantic Provinces have less money to spend than the average Canadian citizen and considerably less than a resident of Ontario. In 1966 the average Nova Scotian had a personal income of \$1575. The average Canadian \$2144 and the Ontario resident \$2454, differences of \$569 and \$889 respectively.

At the request of our members, the Halifax Board of Trade took steps several years ago and formed a cooperative Shippers Association to reduce, wherever possible, shipping costs on shipments coming into Halifax from Montreal and Toronto. Other centres in Ontario and Quebec do not generate sufficient volume of traffic to enable our members to utilize the same type of Shippers Association; nor is such an association possible to and from points in the Atlantic Provinces, again because of insufficient volume of traffic.

The Halifax Board of Trade is vitally concerned with increasing the industrial growth of Halifax and the entire Province. Industries locating in Halifax, or in the Atlantic Region, must be competitive in a market of sufficient size to cover the fixed costs of operation. Because of the scattered nature of the 2-million people who live in the Atlantic Provinces, it is often more difficult for the Atlantic manufacturer to serve the entire population of the region than it is for manufacturers located outside the region, particularly since manufacturers located outside the region have a large and concentrated market readily at hand. For example, the rail distance from Halifax to Edmundston, N.B. is 420 miles. The rail distance from Montreal to Edmundston is 355 miles. Or again, the Halifax manufacturer may find that his transportation costs to Cornerbrook, Newfoundland, are not competitive with transportation by the direct water route from Montreal to Cornerbrook.

Another misconception which we as a Board of Trade frequently find existing in

persons not fully familiar with the region, is that because we are located at seaboard we should have a geographical advantage in export markets. The facts are that steamship rates to and from Halifax are the same as to and from Montreal. As a result, an industry located in Halifax has no geographical advantage in export markets unless it is able to negotiate for large bulk shipments, lower charter rates than from Montreal. As your Committee will appreciate, charter rates depend upon a number of things, including the availability of ships, and may or may not be lower simply because of the shorter water distance to or from Halifax versus Montreal.

Speaking in Halifax on September 9, 1864, the Hon. George Étienne Cartier said:

"I have heard since I have been in Halifax, the objection thrown out that there is much danger that you would be absorbed. I answer them by a question: Have you any objection to being absorbed by commerce? Halifax through the Intercolonial Railroad will be the recipient of trade which now benefits Portland, Boston, and New York. If you are unwilling to do all in your power, you will force us to send all this trade which you ought to have, through American channels. Will the people of Nova Scotia or New Brunswick be better off because they are not absorbed by commerce or prosperity?"

Developments in recent years and in particular navigation on the St. Lawrence River throughout the winter months has made the Hon. Mr. Cartier's question "Have you any objection to being absorbed by commerce?" rhetorical. The Government of Canada, however, can bring about that "absorption by commerce" envisaged by the Hon. Mr. Cartier if it would undertake to encourage, both morally and financially, Canadian National Railways and the necessary steamship lines serving world markets, to adopt new technology of containerization, unit trains, and the so-called "Land Bridge" concept of moving cargo to, from and through Canada. The urgency of establishing this new technology via an Atlantic Provinces port is apparent when it is realized that United States interests are already draining Canadian trade from Canadian carriers and ports and that planning in the United States for the "Land Bridge" concept appears to be considerably more advanced than in Canada.

Just as the changing circumstances and conditions of the past 100 years have dictated that the spirit and intent of the British North America Act must continually be interpreted to meet the needs of Canada as a whole, the Halifax Board of Trade submits that the spirit and intent of the understanding in respect to transportation for the Atlantic Provinces which induced these Provinces to enter Confederation in 1867 must continue to be interpreted to meet the needs of the Atlantic Provinces. These undertakings were recognized and accepted as obligations by the Government of Canada, and in 1927 were expressed in statute form through the passage of the Maritime Freight Rates Act. Developments since then have resulted in the Act being less effective than this Board believes Parliament intended in 1927 it should be. The Statute thus stands in need of revision to provide once again for the region the benefits that Parliament intended it should enjoy.

The Halifax Board of Trade understands that the Minister of Transport has asked the Governments of the Atlantic Provinces to indicate to him the nature of the changes which they see necessary in the Government's public policy respecting transportation for this part of Canada, in order to provide the region with the advantages which Confederation held out to us, and which our economic development so badly needs at the present time. The Halifax Board of Trade is pleased that the Atlantic Provinces have accepted the Minister of Transport's challenge, and is confident that the spirit of cooperation evidenced by the Minister's question, and the steps taken by the Governments of the Atlantic Provinces to assist in the formulation of transportation policy for this region of Canada, cannot be other than beneficial for this region in particular, and the nation as a whole.

In September 1966 the Hon. J. W. Pickersgill said "I will never be a willing party to an alteration in the Maritime Freight Rate Act that the Atlantic Provinces generally do not consider will give them greater benefit than the Act gives."

We in the Atlantic Provinces, realize only too well that our cost of living is tied to transportation charges. Since the increased LCL rates went into effect last September 5 there has been a noticeable increase in the

basic cost of living in this area, as we have already indicated on page 1 of this submission. Briefs presented today and tomorrow will also substantiate the foregoing statement.

The Halifax Board of Trade is very deeply concerned about the detrimental economic effect these recently increased LCL rates will have on every citizen. As we have already stated—most assuredly the manufacturer, the wholesaler and the retailer will have to pass his increased LCL freight costs to the consumer.

We, therefore, urge prompt restoration of LCL rates to their former levels and the initiation of an immediate study to insure that the 2-million Canadians living in the Atlantic Provinces enjoy the same standard of living as the other 18-million citizens of this country.

Respectfully submitted,

George B. Robertson  
Vice-President.



## APPENDIX A-44

## BRIEF

Presented by

THE CORPORATION OF THE CITY  
OF DARTMOUTH

and

THE DARTMOUTH CHAMBER OF  
COMMERCE

to

THE COMMITTEE ON  
TRANSPORTATION AND  
COMMUNICATIONSTO MEET IN HALIFAX  
FEBRUARY 21 and 22, 1968Dartmouth, Nova Scotia  
February 13, 1968

The City of Dartmouth and the Chamber of Commerce are much concerned about the economic effect increased freight rates have had on this area and will continue to have unless some equitable adjustment is made.

It is appreciated that a policy decision has been made whereby the Canadian National Railways will set its rates on a competitive basis taking into consideration certain factors such as the need of special areas and the desirability of development as a nation as a whole. It is our view that this policy is unfair for at least two very important reasons:

In the first place, the tariff policies and other policies of Federal Government have been designed to stimulate the economic unity of Canada and to this end we, in the outlying parts of Canada, are required to pay substantially higher prices so that automobile and other industries can exist in Ontario and Quebec. If this policy and this aim are good ones, then they should be applied in the field of transportation so that the Atlantic Provinces are able to carry on business in Canada rather than in the New England States where their natural interests might otherwise lie.

Secondly, the idea of setting freight rates on the basis of current market

prices is simply not applicable in the Atlantic Provinces because there is no appreciable competition in transportation and the Canadian National Railways operate a complete monopoly so any rates set under their new policies have to be arbitrary. For example, transportation between Halifax and Sydney is controlled 100 per cent by the Canadian National Railways and the only regular trucking concern which operates that route is a wholly-owned subsidiary of the railway.

As an illustration of the detrimental effects arising from the application of these policies, we have the example of the minimum charges being made for carload lots based on weight. We can understand that, as a business, the C.N.R. would wish to have a minimum charge for hauling their cars but by applying this principle, they have made it uneconomical for an industry in Dartmouth to ship cans to the Montreal market which they have been doing up to this time. Upon the application of these new rates, this company has had to reduce its staff by 50 per cent and the future of the industry is in doubt. This obviously is counteracting the effects of other Governmental agencies who are trying to stimulate industries in this area. It is our understanding that there is far more freight coming from Central Canada into the Atlantic Provinces than there is going back; so we can see no justification in applying these minimum rates to railway cars travelling from the Atlantic Provinces to Central Canada. The obvious fact is that, if these cars lose freight on account of these minimum charges as they have in the case of Maritime Cans Limited, they will be travelling back to Central Canada empty.

It would seem to us that good economics and good Government and the interest of Canada as a whole coincide at this point and the charging of minimum weight charges on cars travelling from the Atlantic Provinces to Central Canada should be abolished.

We are most concerned with the situation in regard to Less than Carload shipments which is working a great hardship on industry and commerce in this area. In the first place, the service is not good. The damage

claims are excessive because of the disorderly manner in which these cars are handled, and, to make matters worse, the rates are now at least 100 per cent higher and in Dartmouth local service has been discontinued.

It is well known that the Atlantic Provinces are an area where small industries predominate; and it is this industry which depends on this type of freight shipment. The effect of doubling the rates in this category is obviously a disaster to us and immediate action must be taken. It also is most unfair that shippers from Ontario are able to ship their goods to Nova Scotia in pool cars at lower rates; whereas industry in Nova Scotia is, from the nature of things, unable to ship their goods in pool cars to Central Canada and must pay the Less than Carload rates. This may be economical from a Railway point of view, but

is contrary to recently stated policies of the rights of various parts of Canada. We note particularly statements made at the Constitutional meeting held recently in Ottawa relating to economic development in the Atlantic Provinces. The bad effects of these changes in policy have been made worse by a reduction in service—particularly noticeable in Dartmouth. Previously, the rates included pickup and delivery service and now it is necessary for the consumer to go to the freight shed in Halifax to pick up his own goods, thus adding additional cost. The freight shed in Dartmouth has been closed. It would seem reasonable that a City of 62,000 people should be entitled to this service.

As an example of the increased freight costs:

Item	Weight	Old Rate	New Rate	Pool Car
Copper Fittings .....	76-100 lbs.	\$ 2.26	\$ 4.15	\$ 5.25
Boiler .....	2,732 lbs.	86.30	107.91	91.52

It is also apparent that the new rates are not being applied consistently. As an example, a shipment was received by Eastern Halifax Co-op Limited on November 27, 1967 weighing 260 lbs. Freight charges were \$11.65. An identical article packaged in the same manner was received by the same company on December 12, 1967. Freight charges were \$26.25. The explanation given for the difference in charges was that the first article was charged by weight; and the other, by volume.

In addition to the effect of increased freight rates on existing industry and the existing economy, there is a long-term effect which will tend to discourage new industry from locating in the Province and, therefore, discourage an expansion of our economic base. This effect is contrary to stated Federal policy which is designed to encourage expansion within the Atlantic region and to create economic parity and economical operation. As an example, the Atlantic Development Board is granting \$787,000 to the City of Dartmouth to assist in the development of the City's Industrial Park and, at the same time, a local

industry established within the last three years has had to cut its production by 50 percent as the result of the new freight rates policy established in the Atlantic Provinces. It can be realized that other industries wishing to locate in the Province and in the Federally supported Industrial Park will look on the experience of this unfortunate industry and use this in their judgment decision to locate here.

It is our opinion that the decision to increase the railway rates should not be made strictly in accordance with the economics of the railway corporation but should be made keeping in mind the effects it will have upon the economy of the area concerned.

CORPORATION OF THE CITY OF  
DARTMOUTH  
(R. J. THORNHILL)  
Mayor  
  
DARTMOUTH CHAMBER OF COMMERCE  
President  
(W. James Meredith)

APPENDIX A-45

TRANSPORTATION BRIEF  
CANADIAN ASSOCIATION OF  
PURCHASING AGENTS  
SUBMITTED TO:—

STANDING COMMITTEE ON  
TRANSPORTATION AND  
COMMUNICATIONS—HALIFAX, N.S.  
BY:—

A. E. GARDNER, CHAIRMAN—  
ADVISORY COMMITTEE  
C.A.P.A.—(ATLANTIC DISTRICT)  
HALIFAX, N.S.

TRANSPORTATION BRIEF  
CANADIAN ASSOCIATION OF  
PURCHASING AGENTS—ATLANTIC  
DISTRICT

The Canadian Association of Purchasing Agents—Atlantic District hereby places a stern and forceful protest in the new freight rates

established September 5, 1967 authorized by the Transportation Commission and put into effect by the two major rail companies—Canadian National Railway and Canadian Pacific Railway.

As Purchasing Agents, we find the increase in L.C.L. shipments will increase our cost of purchased articles being shipped into the Atlantic regions from other parts of Canada because of the following reasons:—

*Increase in Rates*

The L.C.L. shipments coming into the Atlantic regions have increased from a low of 17 per cent on goods 750 lbs.; in one piece or bundle from Class 100 (textile packages); to 32 per cent increase for Class 85 (general hardware) to 52 per cent for Class 70 (steel screws); to 76 per cent increase for Class 55 (kegs of nails).

In the same rate for goods shipped between the Atlantic Provinces and Central Canada the increase over L.C.L. range from 5 per cent to 70 per cent.

	Former LCL Freight Chgs.	New Non- Carload Chgs.
Iron or Steel Screws 170 lbs.		
From Toronto, Ont., to Halifax, N.S. ....	\$ 5.88	\$ 9.10
Increase over Former LCL Freight .....		+54%
Decrease over Former Express .....		—19%
Clothing 35 lbs.		
From Stellarton, N.S. to Quebec, P.Q. ....	\$ 2.72	\$ 4.00
Increase over Former LCL Freight .....		+47%
Increase over Former Express .....		+23%

*Rail Transportation versus Road Transportation*

We in the Atlantic Region depend largely on rail transportation from the remainder of Canada for reliable, fast and efficient service. The road transportation from Central Canada to most sections of the Atlantic Region are not comparable to rail transportation for reliability, fast and efficient service.

Before September 5, 1967 we in the Atlantic Provinces enjoyed excellent service from both major rail companies of L.C.L. shipments.

Since September 5, 1967 L.C.L. shipments, air freight and air express shipments has deteriorated because of the inefficient service from the air terminal to warehouses of purchasers.



*Effects on the Atlantic Provinces*

The L.C.L. rates will increase our cost of all products shipped within the Atlantic region. Our Central Canadian competitors will be able to ship into our Atlantic markets in pool cars at tariffs comparable to, or competitive with, shippers who live within these Atlantic Provinces.

This is not in accordance with the statement made by the Honorable John A. MacDonald in 1866 while in Halifax when he said that the Maritimes would be "absorbed in commerce" if only they would forsake their traditional New England trading and join the Confederation. The Honorable J. W. Pickersgill in the House of Commons September 8, 1966 on the occasion of the debate on the new transportation legislation to set up a new Board of Transportation Commission said, "I will never be a willing party to any alterations in the Maritime Freight Rate Act that

the Atlantic Provinces generally do not consider will give them greater benefit than the Act gives."

As Purchasing Agents in the Atlantic region in this our very proud country of Canada, we are very concerned with the added cost on L.C.L. shipments.

As a general rule where most of our industries are small we use L.C.L. method of shipment. The profit ratio between purchasing and profit is 1:5; therefore an increase of 2 per cent in purchasing costs decreases our profit by 10 per cent.

*Conclusion*

We look forward to the Standing Committee on Transportation and Communications recommending and implementing a more equitable treatment with regard to the increase in L.C.L. shipments.

February 12, 1968

## APPENDIX A-46

A  
BRIEF  
FOR SUBMISSION TO  
THE STANDING COMMITTEE ON  
TRANSPORT AND COMMUNICATIONS  
BY  
THE VOLUNTARY PLANNING BOARD  
OF  
NOVA SCOTIA

*Introduction*

The Voluntary Planning Board of Nova Scotia is a voluntary organization established some years ago to review and promote the economic development of Nova Scotia. Its chief function is to advise both the public and private sectors of the economy on matters relating to improving the rate of economic growth. The membership of this organization is composed of senior representatives drawn from all phases of provincial economic activity.

The Planning Board is assisted in its work by volunteer segment and sector committees. The sector committees are representative of each of the ten major sectors of the economy, and report to the Planning Board. One of these sectors advises on transportation and communication matters. The sectors are in turn subdivided into common interest groups or segments within each of the sectors and these segments report to the parent sector committee. Within this organizational structure, ideas and proposals filter upward, being rationalized in the process, until they reach the Planning Board. The Board resolves remaining conflicts, evaluates proposals and, as it sees fit, advances recommendations to the appropriate body either public or private, for their implementation.

In this manner the material presented in this brief has been approved and adopted by the Voluntary Planning Board for submission to the Government of Canada through the Standing Committee on Transportation and Communication. The Government of Nova

Scotia will also receive a copy of this brief through the normal channel used to bring such matters to its attention.

*Seaport and Overland Freight Considerations*

In reviewing the Atlantic Provinces Transportation Study, which had been prepared for the Atlantic Development Board, the Planning Board found several shortcomings, particularly in the section dealing with sea ports. Rather than follow a more constructive approach in arriving at future prospects for the Port of Halifax, those conducting the study merely made a projection of past trends. To be content with this procedure would be to passively accept the negative and faulty conclusion that there is very little future for the port of Halifax or any other Nova Scotia port.

It would have been much more beneficial had the study brought its imagination to bear on the future potential of Nova Scotia's ports in the light of the technological developments of the past few years. To review briefly, Nova Scotia is recognized as having several of the finest deep water, sheltered, ice-free harbours in the world. Moreover, ports comparable in natural advantages are almost non-existent anywhere else along the entire eastern coast of North America.

In the past, Nova Scotia's isolation with respect to the industrial concentrations of Canada and the United States due to inadequate land transportation linkages has worked to her disadvantage. It was only natural that shippers to offshore markets would seek to minimize the higher costs of overland transport by routing their goods via either St. Lawrence ports or New York. This permitted these ports to develop rapidly and to the point where they have been able to attract a very much greater frequency and versatility of shipping services than those presently available at Nova Scotia ports. This has placed Nova Scotia ports at a further competitive disadvantage which is becoming increasingly more difficult to overcome.

However, Nova Scotia's past locational disadvantage is now showing very promising signs of becoming a highly significant advan-

tage; and one that appears to have been overlooked in the Atlantic Provinces Transportation Study.

By applying today's technology, evidence indicates that it is now possible to lower overland transportation costs below those of water borne transportation. When this fact has been adequately demonstrated, a complete reversal of traditional transportation policies and procedures will be necessary. Shippers will seek to maximize the land distances cargo is transported and minimize sea distance. Nova Scotia ports, situated closer to Europe than any other point on mainland North America, will then have a very distinct advantage over their traditional competitors.

Two recent studies have investigated these possibilities very carefully. The first, known as the "*Kauffeld Report*" was commissioned jointly by the Port of Halifax Commission, the City of Halifax, and the Province of Nova Scotia. It was undertaken by the New York consulting firm of Theodore J. Kauffeld. While this report has not yet been released to the general public, it has been made available for study by the Planning Board staff.

The second study, titled "Containerization: The Key to Low Cost Transport", was commissioned by the British Transport Docks Board and was undertaken by McKinsey and Company Inc. of London, England.

Each of these studies confirm the conclusions of the other. Summarizing very briefly, the Kauffeld Report emphatically states (from a supporting data base) that overland transportation freight costs can be reduced substantially below water transportation costs. To achieve this goal, the first step is said to be the abandonment of traditional transportation thinking, methods, equipment, and procedures.

It is pointed out that in the past transportation from A to B has been subdivided into a multitude of autonomous functions, all under haphazard co-ordination. This has resulted in expensive duplication of effort and equipment, costly break-bulk handling and time delays. To circumvent this and realize maximum economies, it is urged that transportation be handled on a completely "integrated systems" basis. That is, that all functions directly involved in the transfer of goods from the door of the shipper to the door of the consignee, however far removed, must be co-ordinated and integrated. This will allow

the greatest exploitation of mechanization and other new technologies. Commensurate with this, highly functional and specialized physical facilities must be brought into use. Much of the necessary equipment is currently being used, not in wholly integrated systems but, in isolation within traditional systems where its full potential cannot be realized. The balance of the equipment can be developed and produced within an acceptable period of time.

The intermodal shipping container, featuring rapid, low cost handling and adaptability to all major types of transport in use throughout the world is the first key factor in this new approach. These containers provide the means for substantially reducing the costs of physically handling cargo. In addition, they eliminate costly cargo breakage and pilferage and can improve ship turn-around times by as much as 400 per cent.

While it is imperative that Halifax and other Nova Scotia ports provide facilities for handling containerized freight without delay, doing so will not provide these ports with any competitive advantages over other competing ports such as New York and the St. Lawrence Seaway ports. They too are installing or have completed these facilities and Nova Scotia will be hard pressed to maintain its relative position. In short, the basic problem of high transportation costs to and from inland ports will in no way be mitigated for Nova Scotia ports by installation of containerized cargo handling facilities alone.

The second and by far the most important key factor for Nova Scotia and indeed the whole of Canada is the adoption of highly specialized integral or unit trains, as advocated in the Kauffeld study. The use of these trains can provide the means of lowering overland transport costs below those of competing water borne carriers. The use of these trains as part of an integrated system would bring several vital benefits to Nova Scotia and to its ports. It will lower the cost of moving the Provinces outputs to inland Canadian markets and to American markets. Similarly, it will reduce the costs of bringing in essential imports from the same regions. Of even greater importance, it will enable and justify one or more of the Provinces ports being rapidly developed into the most important ports in North America.

In the wider sense, development of this concept has equal significance for the whole of Canada. By virtue of Canada's two trans-continental railroads, in contrast with the



multiplicity of regionally controlled United States rail lines, Canada can offer fast, coordinated service without interchanges over a single line from coast to coast; and over Canadian owned subsidiary lines, down into the United States. Not only would such a service attract a high volume of traffic to and from the rich heartland of North America and Nova Scotia ports, it would also create the much talked about "land bridge" for the huge tonnages of freight moving between Europe and the northern Pacific-Asian ports such as Japan and Hong Kong. The all Canadian route not only offers greater "overland" mileages but lower overall mileages between Japan and northern Europe. In addition, overhead clearances on Canada's lines would permit containers to be stacked two high whereas American lines could not.

It is pertinent to note that United States rail lines are already conducting experiments with trans-continental freight trains or "overland freighters" as they are popularly termed. One such experimental train has traversed the continent in fifty hours. This very forcibly illustrates the time savings to be gained and the urgency for Canada to firmly establish her position with this radically new service.

If any doubts remain to be dispelled, concerning the race to establish these trains, it is worth noting that the Pennsylvania Railroad recently applied to the Interstate Commerce Commission for permission to provide a container oriented unit train service between the mid-west, Chicago and the Port of New York. The most strenuous opposition to this application came from the New York Central Railroad, and the application was subsequently withdrawn. However, these two Railroads have since merged and it is considered by those knowledgeable on the subject that the application will be renewed and accepted. The early start of the Port of New York toward the development of an integrated system will be exploited to the detriment of Canada in general and Nova Scotia in particular.

The benefits to be gained are great and further delay could prove to be fatal. The matter is urgent and requires immediate attention.

The Voluntary Planning Board believes without reservation, that Halifax and the new port created by the Canso Causeway have conclusive advantages over and above any other potential North American ports as the eastern terminus of an integrated transportation system.

In view of the fact that the technology is now available for the formation of a "land bridge", the benefits to be derived by establishing this North American land bridge in Canada, the confirming conclusions of the Kauffeld and McKinsey studies and the importance of reducing freight costs between the Atlantic region and inland points the Voluntary Planning Board recommends that:

"The concepts put forth in the Kauffeld and McKinsey Reports be tested by the Government of Canada, and that additional research should be undertaken and immediate trials be conducted with unit trains to ascertain the feasibility of applying them as a key component of an integrated transportation network leading to the ultimate goal of developing Nova Scotia's ports and lowering overland transportation costs to, from, and through the Atlantic Region."

When trials begin with unit trains on runs between the Atlantic Region and Central Canada, it is believed that improvements to the existing railroad bed may be required in order to derive maximum benefits from the use of such trains. Existing limiting factors such as heavy grades, curves, unstable roadbeds, etc., even if encountered rarely, may limit the speed and tonnage capacity of test trains below minimum requirements needed to demonstrate their true potential.

The Voluntary Planning Board recommends that:

"The necessity for and possibility of upgrading the existing roadbed between the Atlantic Region and Central Canada be carefully examined by the Government of Canada to insure that the maximum speed and tonnage capacity of rail transport equipment may be fully utilized."

The Voluntary Planning Board is aware that all of the benefits accruing from the use of unit trains operating between the Province's major ports and inland centers, cannot be extended universally to all parts of the Province. For some time to come, many existing manufacturing and resource industries which are located beyond the direct reach of these envisioned trains, are likely to be dependent on more conventional types of transportation. The Planning Board therefore, makes the following concurrent recommendation:

"An inquiry should be undertaken by the government (with the help of but not by the Maritime Transportation Commission) with a view to establishing the efficacy of water transportation as a direct competitor to land transportation for the movement of certain freight within Canada and for foreign trade, with particular and specific reference to steel, coal and other bulk commodities."

#### *Maritime Freight Rates Act*

The Voluntary Planning Board examined that section of Volume V of the Atlantic Provinces Transportation Study dealing with the Maritime Freight Rates Act. This study concludes that if subsidies are to be continued, they should be made non-discriminatory with regard to the means of shipment but that subsidies on intra-Maritime shipments be abolished. The Board presents the following analysis and conclusions regarding the Maritime Freight Rates Act.

The Maritime Freight Rates Act was passed in 1927 following the findings of the Duncan Royal Commission. The objectives of the Act as interpreted in the Atlantic Provinces Transportation Study are:

- (1) to provide a statutory rate advantage in "select territory", and
- (2) by doing so, to fulfill the obligation inherent at Conference and fulfilled by early rate policy on the Intercolonial Railway of affording to Maritime interests "a wider market of several millions of people instead of being restricted to the small and scattered populations of the Maritimes themselves."

To carry out the intent of the Act, a twenty per cent freight rate subsidy (increased to thirty per cent in 1957) was granted to all Maritime shippers on goods moving outward and westbound by rail to points in Canada as far west as Levis, Quebec. In addition, a twenty per cent regional subsidy (not increased in 1957) on all rail traffic was applied to goods moving within the region by rail.

At the time the Maritime Freight Rates Act was passed, rail carriers provided the only significant transportation service to Central and Western Canada. The trucking industry was still in its infancy and could not compete with rail, even on relatively short runs. Thus, at that time the subsidy on rail shipments

reached almost all Maritime shippers and effectively carried out the intent of the Act.

Since 1927, the trucking industry has expanded progressively to a point where it accounts for a significant portion of the goods moved within Canada. However, the discriminatory nature of the Maritime Freight Rates Act to goods moving only by rail has tended to retard the further development of trucking services and to distort the transportation network within the Atlantic region. This government-sponsored, competitive advantage has permitted rail carriers to retain freight traffic which in many cases could be more efficiently transported by truck, ship or air. It has also served to limit motivation for the Railroad to upgrade roadbed conditions to permit higher average speeds and heavier tonnages. As a result of these factors, other carriers have been underutilized and prevented from developing their full potential for providing the Maritimes with a reasonable cost, well balanced transportation network. It is obvious that the objective of the act is not being realized in that the statutory rate advantage envisioned in the Act is not available to the substantial number of shippers who find it necessary to ship by carriers (especially truck) other than rail.

The Voluntary Planning Board believes that the Maritime Freight Rates Act should be revised to accommodate these changing competitive factors which prevent the act from fulfilling its intended objectives. The Board therefore recommends, as one means of updating the Maritime Freight Rates Act, that:

"Freight subsidies to the Maritime Provinces be paid to shippers on a non-discriminatory basis."

It is felt that the Maritime Freight Rates Act if applied in a non-discriminatory manner will permit the most economic and equitable use of all transportation facilities and thereby help to carry out the true intent of the act by extending its benefits to all shippers.

The issue has become more urgent with the recent "less than carlot" rate increases by the railways and it is hoped that the Board's foregoing recommendation will be implemented with haste. These increases are being applied in an area which is characterized by a large number of shippers who because of their isolated location with respect to markets, are virtually captives of the railway. The abrupt introduction of the so-called



"density rule" will have severe implications for certain industries whose very existence and past development has been dependent on the old rate structure.

The Maritime Transportation Commission and representatives of the four Atlantic Provinces have formed a Task Force to develop a comprehensive transportation policy for the region. It is hoped that the conclusions and recommendations of this Task Force will be given serious consideration by this Committee.

#### *Highway Considerations*

The Voluntary Planning Board believes that the Atlantic Provinces Transportation Study did not give adequate consideration to the limitations of that portion of Highway No. 4 connecting the Strait of Canso region with the Sydney area. This highway is the most direct link between these regions by a margin of 26 miles. However, it is a slow, tortuous route and entirely unsuited to the freight and passenger needs of today's highway traffic.

This highway originally served as the main trunk route. However, when the Trans Canada Highway was being planned, it was decided to route it via Baddeck to serve the dual purpose of upgrading the route to Sydney while at the same time opening hitherto relatively inaccessible territory to tourist traffic. This decision, while it provided a new, much improved route to Sydney, increased the distance by 26 miles, from 84 to 110.

The Strait of Canso area is building up rapidly in contrast to Sydney area, with its surplus labour pool, concentration of industrial services and uncertain future.

It therefore, would seem not only desirable but essential to provide the shortest possible route connecting these two regions. This would permit a tighter economic linkage for their mutual support through the rapid exchange of goods, services and labour.

The Planning Board recommends that:

The Atlantic Development Board be requested to devote further study to the potential benefits to be derived from upgrading Nova Scotia Highway #4 between Port Hawkesbury and Sydney, and to assist in providing this facility.

A study in depth is currently in progress to establish the feasibility of tidal power devel-

opment in the Bay of Fundy. The location under investigation lies between Cape Blomidon and the Parrsboro shore. This project would involve the construction of a causeway between these points.

It is believed that such a development could have very desirable side benefits to the entire western half of Nova Scotia, providing the causeway included provision for a public highway on its surface. Such a link would reduce the distance for our province bound traffic by some eighty miles.

The Planning Board currently has the transportation implications of this prospective development under study and request leave to advise your committee in greater detail at a later date.

#### RECOMMENDATIONS

1. The concepts put forth in the Kauffeld and McKinsey Reports be tested by the Government of Canada, and that additional research should be undertaken and immediate trials be conducted with unit trains to ascertain the feasibility of applying them as a key component of an integrated transportation network leading to the ultimate goal of developing Nova Scotia's ports and lowering overland transportation costs to, from, and through the Atlantic Region.

2. The necessity for and possibility of upgrading the existing roadbed between the Atlantic Region and Central Canada be carefully examined by the Government of Canada to insure that the maximum speed and tonnage capacity of rail transport equipment may be fully utilized.

3. An inquiry should be undertaken by the government (with the help of but not by the Maritime Transportation Commission) with a view to establishing the efficacy of transportation for the movement of certain freight within Canada and for foreign trade, with particular and specific reference to steel, coal and other bulk commodities.

4. Freight subsidies to the Maritime Provinces be paid to shippers on a non-discriminatory basis.

5. The Atlantic Development Board be requested to devote further study to the potential benefits to be derived from upgrading Nova Scotia Highway #4 between Port Hawkesbury and Sydney, and to assist in providing this facility.



APPENDIX A-47

ATLANTIC PROVINCES  
ECONOMIC COUNCIL

Brief

to the

House of Commons  
Standing Committee  
on Transport and  
Communications

February, 1968

In this Brief the Atlantic Provinces Economic Council places before members of the Standing Committee on Transport and Communications information relative to the very urgent needs of the Atlantic region for greater efforts to close the economic gap with the rest of Canada.

There is, certainly, an urgent need for the development of a rational well thought out transportation policy that specifically applies to this region.

Establishing and operating an adequate transportation system here is very costly, because the four Atlantic Provinces contain a scattered population located in many small centres, some of which are along a vast coastline often reached by a circuitous route. The fact that two of the provinces are islands makes the problem even more complex and adds additional requirements to the list of facilities and services normally required. However, any Canadian region should have at least a minimum standard of transportation services provided at reasonable cost.

The absolute and essential need, therefore, is to first establish a plan for regional economic growth; a corollary to this plan should be a regional transportation policy based on the needs of the existing economy and the concept of the economy of the future.

APEC therefore believes it can serve regional interests best by making available to Committee members its latest analysis of the Atlantic economy as presented during our Atlantic Conference last October. These findings are contained in our First Annual Review, *The Atlantic Economy*.

The following are selected comments taken from the Review and will, we hope, place in perspective important aspects surrounding the Atlantic economy. In the view of the Board of Governors of the Atlantic Provinces Economic Council, an appreciation of our First Annual Review is basic to an overall assessment of the needs of Atlantic Canada, including transportation.

A major characteristic of a modern society is a shift of population and economic activity from rural areas to urban centres. This does not mean that rural areas are depopulated and stripped of all activity. It does mean, however, that the great bulk of new activity is situated in urban centres, and it is to these centres that population tends to gravitate.

Although these shifts may not be as pronounced in the Atlantic Provinces as elsewhere, they are very much in evidence nevertheless. Between 1961 and 1966, for example, the increase in urban population in the Atlantic Provinces amounted to 12 per cent to compare with an increase of about 4 per cent in total population, and a decrease of almost 4 per cent in rural population. This means that in 1966 about 54 per cent of the population of the Atlantic region was urban, an increase from about 50 per cent five years earlier.

Furthermore, it is the large urban centres which, generally, are experiencing the most significant population increases. For example, the population of the Fredericton-Oromocto Urban Area<sup>1</sup> grew by almost 16 per cent between 1961 and 1966 to place in among the fastest growing urban areas in Canada, and that of Metropolitan St. John's advanced by over 10 per cent. During the same period the population of Metropolitan Halifax increased by nearly 8 per cent, that of the Moncton Major Urban Area by over 7 per cent, and that of the Charlottetown Area<sup>2</sup> and of Metropolitan Saint John by nearly 6 per cent. It should be remembered that these increases compare with an increase of about 4 per cent for the Atlantic region as a whole. With some exceptions, the population of

<sup>1</sup>Fredericton, Nashwaaksis, Marysville, Barker's Point, Lincoln, Oromocto.

<sup>2</sup>Charlottetown, Parkdale, Sherwood.

smaller urban centres grew less rapidly than that of the region as a whole—in fact a large number of smaller centres saw actual population declines.

In addition to these changes in the pattern of population distribution, there are also changes in the industrial structure of the regional economy which are relevant to the development of a transportation system. A very encouraging trend over the last few years has been an increase in manufacturing activity. Although less than the national rate of growth, the rate of growth in the value of regional manufacturing output has been rapid during the last six years or so. The increase in manufacturing employment during the 1961-66 period is also very encouraging. It is, of course, in manufacturing and certain of the service industries where the evidence of a changing industrial structure should be sought. The period 1952-59 saw a decline in manufacturing employment in the Atlantic Provinces, while at the national level there was little or no increase. However, in the 1961-66 period manufacturing created an average of 2,400 additional jobs each year in the Atlantic Provinces. During the period manufacturing employment increased by 24 per cent, just slightly below the national gain of 25.8 per cent.

There are, of course, many other evidences of a changing society in the Atlantic Provinces. Many of these changes are not as rapid as we would like to see, nor are they adequate to meet the overall need of the region—that of promoting a better balance between the Atlantic region and the other regions in the country. This challenge raises immediately the nature of further changes which will likely come about given realistic development objectives, an adequate system of priorities, and intelligent policies and programs to bring them about.

The development of natural resources and the processing of primary products have traditionally played a central role in the economy of the Atlantic Provinces. Many primary activities are now faced with very serious problems of adjustment in response to changing conditions affecting capital and labour inputs and to changing market conditions. In agriculture we would hope to see policies and programs directed to increasing the size of the farm, diverting low-yield land to more productive purposes, and increasing the amount of capital available to efficient, or potentially efficient, farmers. In the fisheries continuing emphasis will need to be placed on

the establishment and equipping of an efficient off-shore fishing fleet. In forestry, measures to improve the quality and quantity of wood procuring equipment will likely form one element of policy. In mining, the most obvious problem is in the coal industry and those policies which have already been advanced to close out uneconomic mines and mining operations will have to be pursued.

We expect that to achieve an objective of better regional balance the growth in manufacturing which we have already noted will have to continue. We would not be surprised to find that, in the achievement of this objective, there would need to be an increase in manufacturing employment of about 40,000 over the next ten years. This, of course, is an ambitious target. It will require several changes in public policies. While continuing to encourage manufacturing expansion and new manufacturing location wherever it is economically feasible, particularly in the processing and further manufacturing of resource materials, it will be necessary to become unreservedly committed to the growth centre principle. All policies and programs which have as their purpose the encouragement of industrialization will have to be directed to this end.

This does not mean that all economic activity will be concentrated in growth centres. There will continue to be agricultural, fishing, mining and forestry activities at the source of their raw material base, and many primary processing activities located in relation to this base. It does mean, however, that the trends we have already noted toward concentration of population and economic activity will likely become more pronounced in the future. It also means that, if the right policies and programs are adopted and implemented, the rate of regional population growth should be greater than in the past. This is because such policies, programs and actions should be capable of generating a level of activity which will tend to bring about a decline in the recent high level of population migration from the region.

Another feature of the regional economy is the important role played by foreign trade. With exports equivalent to 20 per cent of the value of total regional output, the Atlantic Provinces are more dependent upon foreign markets than is Canada as a whole. And a larger portion of the region's recent growth can be attributed to rising sales abroad than has been the case for the nation. The two major characteristics of our export trade are



the overwhelming importance of primary and lightly processed materials and the heavy dependence upon the United States market.

While a wide variety of commodities are exported from the region, more than one-half of the total value is accounted for by newsprint, iron ore and wood pulp. Products of the fisheries, forests and mines together account for all but 15 per cent of regional exports. Foreign markets purchased 60 per cent of our seafood products, 20 per cent of our pulpwood, 80 per cent of the mineral output, about 50 per cent of lumber and wood pulp, and 75 per cent of newsprint. Final products of a non-food nature accounted for only 2 per cent of the total export value, compared to 15 per cent nationally. Manufacturing industries not related to the natural resource base are oriented towards the domestic market.

The geographical marketing pattern is similar to that for the nation with over 60 per cent of all exports going to the United States and 10 per cent to each of the United Kingdom and the European Economic Community. About three-quarters of our fish exports go to the United States, two-thirds of the metals and newsprint. Of the unedible end products only 35 per cent goes to the U.S., EEC and EFTA combined, compared to 87 per cent of all exports. While the total value is small, the geographical distribution is world-wide.

This, then, is a very brief and general description of the type of regional economy for which a transportation system needs to be devised. We do not intend to make any definite suggestions concerning the detailed aspects of transportation. Against this background it is, however, possible to suggest some guideline which might be useful in the development of a transportation system.

It might be noted that a transportation system should serve two general purposes. First, it should be capable of assisting those changes in the regional economy which are necessary to a more rapid rate of overall development and more rapid increases in regional output and income. Secondly, it should be capable of

meeting the needs of an ever-changing society and of permitting the most efficient interchange of persons and goods in a changing environment. This implies, of course, that it must be susceptible to change to meet the new demands which are placed upon it. It must be concerned with all forms of transportation—rail lines, highways, the waterways and the air ways—and must weld these into one system which, when considered in total, will meet the needs of the region.

It is evident then that a transportation system for the Atlantic Provinces should provide at least a minimum standard of services at the lowest possible cost to meet the needs of the region. This implies that the system must be the most efficient possible. However, even with a system operating at peak efficiency, the situation may be such that rates will be high in comparison with those elsewhere. This is the case in the Atlantic Provinces because of the scattered nature of regional population and markets and because of the distance from external markets for many key products. In such a situation a consideration of public subsidies becomes almost inescapable.

However, it needs to be emphasized that the matter of subsidies is not the important consideration. The primary consideration is the development of a transportation system, comprising all means and modes of transport, to meet the needs we have suggested for the present and the future. Subsidies, to whatever form of transport, should be looked upon as a means of expediting the development of the overall transportation system, and they should be applied in such a way as to prevent distortions in the system.

It is this approach—the development of an overall, comprehensive, and co-ordinated transportation system to meet the needs of social and economic development in the Atlantic Provinces—which we commend to all those concerned with the various aspects of transportation. Particularly we recommend this approach to the Standing Committee on Transport and Communications of the House of Commons.



## APPENDIX A-48

## SUBMISSION OF THE SOCIETY FOR ATLANTIC INITIATIVE FOR PRESENTATION TO THE STANDING COMMITTEE ON TRANSPORTATION AND COMMUNICATIONS IN HALIFAX

"It should be clear that every opportunity should be taken to stimulate further competition in order to maintain an effective check on unwarranted rate increases and it is curious that many interests in the Atlantic Provinces are so concerned to preserve a measure which has precisely the opposite effect."

Atlantic Provinces Transportation  
Study—Volume, Page 53.

The Society for Atlantic Initiative (SAI) was organized in November 1967. It includes approximately two dozen men from the business, professional and educational fields. Concern over the apparent lack of growth in the economy of the Atlantic Region and frustration arising from a lack of understanding of the various programs, policies and plans relating to the subject were the principal factors leading to the formation of the Society. It was considered, as well, that the Society would be able to bring together independent viewpoints from a wide range of talent and, in the presentation of these viewpoints, would be uninhibited by considerations of a partisan political nature or by a specific concern for any one particular interest.

It is the hope of the Society that the Atlantic Region will eventually develop the means of producing its own wealth and that the transfer of funds from the Federal Government in the form of maintenance payments can be gradually eliminated. It is therefore the function of the Society to urge the adoption of policies which will achieve that end.

It is generally conceded that there is a national policy designed to encourage growth in those regions of Canada which, for one reason or another, have suffered economic retardation or stagnation. A substantial number of pronouncements have been made by responsible organizations and government leaders to indicate that the primary aim of the national policy is the development of internal vitality.

The Atlantic Provinces Economic Council in its First Annual Review has attempted to apply the national aim to the Atlantic Region:

"If we read the signs correctly, a consensus appears to exist that the general objective of Atlantic regional development should be a narrowing of the proportional gap in personal income per capita between the region and Canada as a whole, and that this should be accomplished through the generation of income within the region and not by the transfer of income to the region. The general objective becomes, then, one of development—not one of welfare." (Page 78)

The SAI support this statement and recommend it to the Committee as the primary consideration in this study on Atlantic Transportation problems. Of secondary, but almost equal importance, is the national policy on transportation set forth in the National Transportation Act.

Section 1 of that Act states federal policy of the Federal Government with respect to transportation and it has been reproduced and attached to this brief in the event that any Committee member might wish to refer to it at this time. Clearly, competition rather than regulation has been recognised as an underlying need for the development of an economic, efficient and adequate transportation system. There appear to be two areas where competition is not to be depended upon to resolve the transportation problems of the nation: First, where some other national policy or national interest comes in conflict (or there are legal and constitutional problems) and second, where shippers are captive to transporting commodities by rail only.

The Committee should consider, then, three questions:

1. Does the National policy dedicated to stimulating Atlantic regional growth conflict with the National Transportation policy so as to justify an exception being made with respect to the Atlantic Provinces?
2. If there is a conflict, how can the Transportation Policy be modified to bring it into line with the greater aim?

3. If there is no conflict, can Transportation Policy yet be improved to aid in the attainment of the greater aim?

It will be argued strongly before this Committee that there is a conflict between the two policies. It will further be suggested that subsidies such as are presently paid under the provisions of the Maritime Freight Rates Act must be increased and, by some people, even that the subsidy must be extended to include truck transport. These steps, it is argued, are necessary in order to preserve for shippers in the Atlantic Provinces a statutory rate advantage over shippers in Central Canada. Underlying these arguments is the *assumption* that the carrier will pass to the shipper any subsidy paid. It is very important that the Committee recognize these arguments are utterly dependent upon the truth of that *assumption*.

The SAI adopts the findings and reasoning of the Economist Intelligence Unit as reported in the recent Atlantic Provinces Transportation Study. Consequently, one recommendation of the SAI is the abandonment of any further attempts to maintain a statutory rate advantage for Maritime shippers and the total abolition of the subsidy paid to the Railways pursuant to the Maritime Freight Rates Act, both on movements within the select territory and from the select territory west.

It has long been considered by the weight of numbers in this region that shippers marketing goods in the Central Canada market should be afforded an access cost comparable to that enjoyed by their competitors located in Central Canada. In other words, it is said, the actual distance between the point of shipment and its destination is to be ignored in the calculation of rates for Atlantic shippers. The SAI does not consider pre-Confederation promises or statements made prior to the enactment of the Maritime Freight Rates Act relevant. It is necessary, however, to look at them very quickly in order to understand just why transportation policy occupies such a hallowed position in the minds of Atlantic businessmen and their advisors.

First of all, it must be assumed that most people believe that the Maritime Provinces were the wealthiest part of the country to take part in Confederation. It is apparent most people also are prepared to ignore the fact that the Maritime Provinces had reached their zenith prior to Confederation and were in a declining position because of their limit-

ed and restricted economic base—the sailing ship and North-South trade under the Reciprocity Agreement.

In any event, it seems to have been agreed by the makers of Confederation that Atlantic industry should be afforded some type of advantage from Confederation, and it was settled that this advantage would be a means of access to Central Canada, where the population growth would be centred. The various commissions set up to examine the transportation problems in the Maritime region have certainly confirmed that it is desirable to establish a statutory rate advantage for Atlantic Region shippers. This was the purpose of the Maritimes Freight Rates Act.

In talking about modes of transportation and freight rates in 1867, the Fathers of Confederation would have given very little regard to competitive modes of transport and to the complexities of rate setting which exist in today's world. Even though they knew all about railroad, they would probably not be able to visualize the type of transportation demands that would exist in 1968. This is likely about equally true of the Duncan Commission in 1926 and 1927.

The rapid development of foreign production, and its appearance in the Canadian market in competition with Canadian producers, is another real problem of 1968 and one whose scope was not likely foreseeable in 1867. However, it is one of the problems affecting Sydney Steel.

Today's production methods rely on volume for efficiency and low cost and this means that producers must have a substantial local market so that they can be competitive with their excess production in distant markets. The Maritime producer, unfortunately, does not have this local market and he is attempting to recover his embedded costs in the Maritimes in competition with the excess production, at variable costs plus transportation, of the producers serving the larger Central Canada markets. This type of competition is only appearing because of the fact that Central Canada has developed into such a large market and a means of transportation exists by which their production can be delivered competitively into the Maritime area.

Thus, there is the problem that the economic circumstances of today are vastly different from those that applied at Confederation. It is even fair to say that the Canada which existed and which made those prom-



ises does not exist as such today, and certainly the Atlantic Provinces, in relation to the rest of Canada, are not the same nor are their problems the same. It is reasonable to say that the total problem goes far beyond the realm of transportation and the perpetuation of Confederation promises is no guarantee of a successful remedy.

The spirit of Confederation, which could probably be expressed as the desire to make all of Canada grow, is still with us and still valid and it is within this spirit that modern day approaches to the problems of depressed regions should be approached. With the establishment of a national policy dedicated to the stimulation of regional growth, the reasons for attempting to maintain a statutory rate advantage to Atlantic shippers have disappeared.

Examine the anomalies created by the Maritime Freight Rates Act;

A. The higher the rate charged by the Railway, the higher subsidy it receives. The Railways are, therefore, encouraged to charge higher rates wherever the absence of competition permits it. Especially will this be true as the subsidies formerly payable under the Freight Rate Reduction Act, and totalling \$100,000,000 or more, are phased out over the next 8 years. This objection will apply as well to an extension of the subsidy to the trucking industry.

B. The subsidy is applied even in those cases where the Railway has quoted a competitive rate in order to obtain the business from a trucker or competing mode of transport. It is difficult to see how the subsidy aided the shipper in these cases when it is remembered that the Railway claims the competitive rates used in the Atlantic Region are almost without exception compensatory in themselves without recourse to the subsidy. It would appear that approximately one-half of the revenue and, therefore, of the subsidy is received by the Railways with respect to movements under competitive rates, both within the select territory and from the select territory to the eastern region.

C. It cannot be shown in any way that the subsidy is being passed on to the shipper and the SAI feel it is safe to conclude that only a small portion of the approximately \$20,000,000 in "Maritime" subsidies paid to the Railways benefits

the shipper. It is indicative of the subtlety of political thinking of 40 years ago that a desire to benefit the shipper would result in a payment to the carrier without any effective means of ensuring that the carrier pass the benefits on to the shipper. Neither business nor government conditions today justify the delegation of such a trust upon a business entity also charged with the responsibility of producing a balanced financial statement.

It seems to be recognized by many responsible organizations that the M.F.R.A. subsidy is not particularly benefiting the shipper at the present time. The proponents of this view, however, will argue that the solution lies in the extension of the subsidy to the trucking industry. Thereby, they say, the best of both possible worlds would be obtained in that competition will not be distorted and the strong advantages which flow from having alternative modes of transport competing against one another for the business will be complemented by the abolition of the rate reflecting the normal cost of the haul. The SAI, for several reasons, think this is a fallacious viewpoint, namely:

A. It ignores the political difficulty of subsidizing truckers in one area of Canada while ignoring the rest.

B. It ignores the fact that it will still be impossible to ensure that the carrier passes the benefit on to the shipper.

C. It ignores the difficulty of defining the phrase such as "trucking industry". Would this subsidy extend only to public carriers or would shippers operating a private means of transport receive some benefit? If the shipper with a private mode of transport is denied the subsidy, will he not be encouraged to form his own public carrier company, thereby encouraging proliferation of truckers.

The SAI takes the view that the Atlantic Area needs a strong, efficient, reliable, and effective, alternative mode of transport. In this way, even though the actual distance that freight must be moved will be reflected in the rate, improved service will compensate and aid in the reduction of other costs associated with the transportation of goods over a long haul, namely time and efficiency.

It will be argued by some of the advocates of increased and continued subsidies that payments can be directed to the shipper to avoid any benefit of the subsidy remaining



with the carrier. This suggestion has the merit of at least providing conclusive proof that the payment reaches the shipper. It must be recognized immediately, however, that the carrier, being aware of the government contribution to the shipper's transportation costs will undoubtedly react by applying an appropriate increase in the rate. This is especially true for railway shippers moving under agreed, commodity and class rates. It should also be noted that the subsidy to the shipper has disadvantages because it does not permit allocation of benefit to the shippers most deserving and the universal application of the benefit is most likely to work some injustice. The subsidy to the shipper is merely an additional increment to his operating revenues. It is submitted a benefit tailor-measured to the shipper's needs can be better supplied in other ways, either through capital loans or the establishment of co-operative distribution facilities of some type or other.

The SAI therefore conclude that there is no *real conflict* between implementation of the national transportation policy and the policy of stimulating regional growth. The abolition of the subsidy under the Maritime Freight Rates Act merely disposes of an inefficient method of rendering assistance to industry in the Atlantic area. There is a need, however, for assistance to be given to ensure that a strong and effective alternate mode of transport is developed. There is no doubt that much can be accomplished on the provincial level through the establishment of uniform and more appropriate trucking regulations and rates. The entrance of the Federal Government into this field, under the provisions of Part III of the National Transportation Act, may not be necessary although as a last resort and failing prompt efficient action on the part of the Atlantic Provinces, the Federal Government should not hesitate to use its powers in this field. The SAI recommend that a responsible body such as the Atlantic Development Board or the Canadian Transport Commission be asked to prepare and make available to the Provincial Governments in the Atlantic Region, and to public organizations and private groups such as the SAI, draft uniform legislation and regulation respecting inter-provincial trucking.

In place of the subsidies which must be abolished, in the view of the SAI, it is recommended that the Federal Government establish an Adjustment Assistance Board, similar to that established by the Federal Government through the Department of Industry, for

assistance to industries injured by the reduction of the tariffs pursuant to the recently completed Kennedy Round negotiations, so-called. It is felt that the subsidy payable under the M.F.R.A. is exactly comparable to the former high tariff walls, protecting some industries from the marketing in Canada of lower price goods. The establishment of a similar remedy would not seem an unfair burden for the rest of Canada to assume for a short period of time while the M.F.R.A. subsidy is phased out.

It is important to note that the SAI does not deny that transportation costs are a problem in this area. We are, in fact, laying stress on the fact that transportation is a much bigger problem than just the cost. It is a problem in efficiency and lack of distribution facility, time and effort, and it deserves to be improved in as many aspects as are possible. It seems, however, if we recognize the pure fact of life that the longer and greater the distance, then the higher the cost and, therefore, the higher the rate (under normal circumstances, at least), we should attempt to compensate for this by improving the other elements which go to make up transportation problems such as efficiency and speed. The increased costs which, in the view of the SAI, are imminent under any circumstances will be overcome through the development of new techniques as the competing modes of transport seek to win the shipping business.

In conclusion, then, let us say that the SAI recognize transportation problems in the Atlantic Region stem from the actual distance from our major markets and from the absence of competition from the trucking industry. The feeling is, therefore that the penalty must be faced and attempts made to overcome it by developing strengths in other segments of the economy. It has to be recognized that other economies have functioned well, notwithstanding certain inherent defects completely comparable to the transportation problem faced by the Atlantic Region. The Atlantic Region has problems in education, productivity, management, efficiency, absence of secondary manufacturing and in many other fields. The distance which lies between this area and Central Canada is a fact; it cannot be altered and the markets grow no nearer by the perpetuation of subsidy payments. The lack of productivity in our industry, however, is a condition which can be overcome and by so doing can place the transportation problem in its proper perspective. As part of the program to overcome the

apparent inertia which exists in the Atlantic Region, citizens in these provinces must be assisted to develop competitive industry and they must be persuaded to reject the continued application of Federal funds in the area as a panacea for all ills.

To close, gentlemen, this brief is not filled with figures. In our view, and that of others, the E.I.U. has provided sufficient. Unless its study is incorrect in its conclusions, and the SAI does not believe it is, a course of action seems clear.

The well being of the entire Atlantic Region, perhaps all of Canada, can be greatly affected by your recommendations. Prosperity requires modernization in plant equipment,

practices and attitudes. Modernization implies change and change causes distortion. Prosperity cannot be achieved without change so change we must and change we should. Prosperity without change is a simple contradiction in terms.

All of which is respectfully submitted.

The Society for Atlantic  
Initiative  
per Transportation  
Committee

A. Phelps Bell  
Ron MacDonald  
A. J. Unsworth  
F. M. Waller

### SUMMARY OF POINTS

The brief that follows deals only with policy and subsidies, not with recent rate changes. Its principal points are:

1. The remedy for the many economic ills besetting the Atlantic Region requires action by the Atlantic Provinces as well as the Federal Government. Transportation is but one of those ills, even though one of vital importance.

2. The Atlantic Provinces cannot continue to demand the perpetuation of Confederation promises, when the environment of today is completely different from that of 1867, 1927 or, but to a lesser degree, 1949.

3. Transportation subsidies which may have helped the shipper at one time, today cannot be proven as being much more than revenue to the carriers, with very little real benefit accruing to the Atlantic shipper.

4. The accomplishment of the objective of National Transportation Policy can best be achieved by creating conditions which will assist the maximum development of non-subsidized competitive modes of transport in the Atlantic Region.

5. Provincial and Federal Governments should work together in such fields as all-weather highways, uniform trucking regulations and rates to develop truck competition.

6. Should abolition of subsidies result in a demand by subsidized carriers for

increased rates, consideration should be given to provision of temporary assistance to shippers who would be genuinely injured.

7. While distance from the major markets causes a transportation problem, it cannot be shortened. The penalty it creates can be overcome by transportation improvements, competitive modes of transport, and improvements in productivity, management techniques, efficiency, development of industry and local markets. Continued reliance on subsidies, particularly those of doubtful benefit, will not inspire maximum effort in these other equally critical areas.

8. Finally, these recommendations should be considered in total. It is not recommended that the subsidy be abolished unless simultaneous action is taken in the other fields.

### NATIONAL TRANSPORTATION ACT

#### PART I

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. It is hereby declared that an economic, efficient and adequate transportation system making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation and to

maintain the economic well-being and growth of Canada, and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that having due regard to national policy and to legal and constitutional requirements.

(a) regulation of all modes of transport will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;

(b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense;

(c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty; and

(d) each mode of transport, so far as practicable, carries traffic to or from any point in Canada under tolls and conditions that do not constitute

(i) an unfair disadvantage in respect of any such traffic beyond that disadvantage inherent in the location or volume of the traffic, the scale of operation connected therewith or the type of traffic or service involved, or

(ii) an undue obstacle to the interchange of commodities between points in Canada or unreasonable discouragement to the development of primary or secondary industries or to export trade in or from any region in Canada or to the movement of commodities through Canadian ports;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation.



## APPENDIX A-49

Halifax, Nova Scotia  
February 12, 1968

A brief should never begin with an apology but the writer would like to point out that my absence at the Co-ordinating Meeting and the late date of preparation of this brief were not due to lack of interest. Since January 21st until February 8th I was engaged touring the Caribbean on business. During this trip I witnessed the tremendous potential for our business to develop in this area. There is a great tendency to ignore this transportation question and begin immediately to follow up our business contacts. However, we consider it vital to take what little time is now available to communicate to the Committee some of our views:

## OCEAN FREIGHT

It seems that the main area to discuss is rail movement, but we do note that the Committee's terms of reference include all aspects of transportation. Since 1841 our firm has depended on ocean carriers for the transportation of our goods from all over the World. In the last decade we have witnessed an unprecedented increase in our export business. Obviously the cost and service of ocean transportation is at the very backbone of our trade.

Just briefly on the import side, all coffee which we import from South/Central America and Africa is discharged at Montreal meaning costly overland movements to our Halifax factory. The same applies to many of the spices which we import. We have to route via Montreal, New York, or tranship at Liverpool.

Another product is dates. We have been forced to order enough tonnage to warrant a special incentive call at Halifax. On the recent visit of the "Waldenfels" brought in essentially for our cargo, we experienced unbelievable problems mainly due to improper action on the part of the Halifax Port authorities and agencies. Needless to say, we protested strongly to all concerned.

On the export side our main markets include the United Kingdom and the Carib-

bean area (in all our products are shipped to over thirty countries). The service to Liverpool has been used but our Associate Company, Schwartz Spices Limited, is located in London which is served only every two months via Canadian Pacific boat from Halifax. As a result, we must ship the majority of our volume from Montreal. Until recently during winter months we, at least, had a frequent service from this Port to London but with winter navigation at Montreal fewer vessels call at Halifax even during this period. Cunard have now decided to close their office in Halifax and since Canadian Pacific have their Atlantic terminus at Saint John, the future of any London service from Halifax looks questionable.

Our firm welcomed the development of containerization and have been using containers for five years for both the United Kingdom and the Caribbean area trade. In the case of steel containers for the United Kingdom, there is no difficulty obtaining these at Montreal, but Halifax is quite the opposite. Initially we brought empty containers by rail to Halifax, the cost of which absorbed any saving that containerization might offer. At that time, it was illegal to move empty containers from Montreal to Halifax via ocean carrier. As you know, most of these vessels load at Montreal then proceed to Halifax. We experienced the same problem this year and continue to be told that an 'Order-in-Council' will correct this situation. We maintain that the authorities involved should have corrected this many years ago or at the outset shortly after firms like ours experienced this difficulty.

## RE CARIBBEAN

A few years ago in addition to Saguenay Shipping, this area was served from Halifax and Montreal by Royal Netherlands Steamship Line and Booth Line. Saguenay developed a collapsible container for this trade and the others followed their lead. We geared our entire packaging program to this system. Saguenay now have the market to themselves and are contemplating discontinuance of the container service. Our competitors in New York, for example, are provided with a very frequent service subsidized by the United

States government and containerization has reached a high level of development.

Just today we were once again advised that the service from Eastern Canadian ports to Belize, British Honduras, is discontinued. The alternative is to ship overland to New York and the additional freight, for instance, on a case of peanut butter mugs is \$1.45 Canadian. (Now making a total freight cost of \$2.20 while to most Caribbean destinations the freight is 60 cents per case.) We had no alternative but to request our customer to accept the additional freight. When you consider that U.S.A. manufacturers were already competitive, the future in this market for us is questionable. Needless to say, this country, like many in the Caribbean, devalued just at a time when our prices had to be increased due to rising Canadian costs.

Our firm is now building a new plant near Halifax. We would like very much to serve our export trade and expand our operations here but cost analyses have shown that it is much more economical to do this from our Montreal Plant. In fact, we know it would lower our costs if we discontinue certain present manufacturing at Halifax for the Atlantic market and obtain these products in a finished state from our Montreal Plant and distribute only from our Halifax location. However since we are a Maritime firm, well established here, we for a number of reasons including sales decided to continue here despite the higher costs. Clearly, this is an example of the present structure inhibiting or discouraging industrial development.

#### DOMESTIC MOVEMENTS

Keeping in mind the basic disadvantages mentioned above, our competitive position is further endangered by the high inland costs. Firms like ours engaged in secondary manufacturing who package in cans and/or bottles must bring their empty containers from Montreal and beyond incurring substantial freight costs.

Our Halifax plant ships to outlets in the four Atlantic Provinces. To minimize the effect of L.C.L. freight changes, we have instructed our sales force to avoid less than 300 lb. shipments and route via truck whenever possible. It seems clear that now since rail rates are up, truck rates will fall in line. Already most minimum truck rates have been greatly increased. Based on this premise here is what we might face: On 14 separate orders shipped to points in the three Maritime Prov-

inces, we paid a total of \$99.14 truckage. If these same orders were now shipped via rail under the new rates, it would cost \$154.84 giving an approximate increase of 55%. Looking at the less than 300 lb. shipments in this same sample, 8 orders cost \$25.74. They would now cost \$41.55, a 65% approximate increase. It should be pointed out that our products have a relatively high density per cubic foot so these are not "balloon" comparisons.

Before last Fall's increases, our competitors in Montreal had the advantage of shipping via pool car to many points in the Maritimes such as Truro, New Glasgow, Charlottetown, Fredericton. It has been suggested that those here, affected materially by the freight changes, should utilize pool car services. There is insufficient volume from Halifax to warrant pool car services.

It should be pointed out that raw peanuts cost us over 1 cent per pound more in Halifax than in Montreal due to additional freight. This is a volume item and this discrepancy affects our position on this very competitive line.

#### RECOMMENDATIONS

Even if time permitted, the writer does not pretend to have the answers to these basic transportation problems.

It is encouraging to note that all aspects of the problem are being studied by the Committee and that the interested agencies from this area are attempting to co-ordinate their efforts. There has never been a proper *regional* approach and perhaps the dynamic leadership that was applied to the armed services can be extended to the transportation field.

Perhaps the answer lies in consolidation and subsidization not only of the transportation industry but the establishment of a glass works in Atlantic Canada. The Department of Trade and Commerce is respected internationally for the services they are providing, but it seems they have never extended their efforts to the transportation aspect. Even today if there was a co-ordinating agency that could plan and time the import and export of cargo so that sufficient tonnage was available per call to compensate the carrier and to provide importers and exporters with some semblance of service, this would assist the area greatly.

Respectfully Submitted  
Export and Traffic Manager



## APPENDIX A-50

## SAINT MARY'S UNIVERSITY

Halifax—Canada

DIRECTOR CATHOLIC IMMIGRATION  
BUREAU

## CATHOLIC PORT CHAPLAIN

February 12th, 1968

The Honorable Paul Hellyer, M.P.

Minister of Transport

Parliament Buildings

Ottawa, Ontario

Re: *Transportation of Immigrants and Refugees from Port of Halifax*

Honorable Sir:

Although the Parliamentary Transportation Committee will come to Halifax to study possible revisions to Maritime Freight Rates and consider broader question of transport development, may we ask it to inquire into the Railway Passenger Service given our returning citizens and residents and particularly immigrants and refugees.

Upon arrival in Halifax in 1957 to look after these new-comers, I found that those who came from Mediterranean countries (Greece, Italy, Israel) had to travel in the "colonist" wooden-unupholstered seats used by the harvesters in the early decades of the century, whilst those coming from Europe (north) rode in modern coaches in the forward part of the train or had "Special Train" fully equipped with compartments, berths, roomettes and latest coaches.

The harvester wooden-coaches dubbed "Cattle-cars" by railway employees were converted or destroyed as immigration declined. The introduction of air-conditioned coaches five or six years ago, gave rise to a new but very serious problem and conditions which your Committee may solve and clear.

By policy and regulation of the Canadian National Headquarters, "no special train may be set up in Halifax unless there are 200 revenue passengers". When the number 217 was reached our Bureau was informed that the total had been raised to 250 with the

possibility of 300 later. Children under five years do not count though they are included on the regular trains.

A brief summary of conditions in October 1967:

Arrival Oct. 8, 67 10.30 pm. "*Queen Anna Maria*" Haifa, Athens, Naples, Lisbon (12 days)

Departure Oct. 8 12.30 noon. Ocean Limited train to Truro where coaches waited three hours. 214 passengers. Held up 17 hours.

Arrival Oct. 9 3.30 pm. "*Cristoforo Colombo*" from Trieste, Venice, Athens, Naples (12 days).

Departure Oct. 10 6.15 pm. of 253 passengers—26 hours after arrival.

Arrival Oct. 23 9.30 pm. "*Queen Frederica*" from Athens, Messina, Palermo, Naples.

Departure Oct. 24 6.15 pm. by Scotian—21 hours after arrival. Passengers 160.

Comfortable dormitory accommodation was offered to women and children. Men slept in coaches. Many mothers were obliged to stay in coaches because their children would not leave their fathers. We must remember too, that on landing-day the vaccination is most effective but very painful, requiring the Immigration Doctors' care, especially to infants.

To the above summary may we submit other reasons and information for better train-service?

—According to Italian Consul's reason, these people have as much if not more right to board regular trains. They have a longer distance to cover, to Montreal, Toronto, Winnipeg, Calgary and Kitimat B.C.—they have not fully recovered from a long twelve days' voyage over rough seas.

—They have paid for much extra baggage and express charges, and perhaps railway fares due to overstay in Immigration Quarters.

—They are anxious to settle down, handicapped through ignorance of language and open to over-charging.



—According to a former Minister of Immigration they save Canadians from \$643,000,000 in taxes, for each child and grownup has a mouth to fill three times a day, has need of clothing, shoes and other necessities, but particularly newly-built homes which employ many men's labor to erect, new schools, new industries and resources of distant mines.

—The special train would mean more manpower and decrease of unemployment, the cancellation of "WOV" (without visa) entry via New York, i.e. more passengers. Is not the Canadian National service in the Maritimes subsidized by Parliament?

# FIRST IMPRESSIONS ARE THE MOST LASTING.

From the first days of immigration groups in Canada, the old fathers and mothers have remembered the "Cattle-car" days and the discomforts they endured. Will not the pres-

ent day refugee remember the hours he spent in idleness in the immigration halls?

I think that all I did for these people was appreciated. The customs' officials and those who helped these people were impressed by their gratitude as they lifted and kissed the hands of all.

Your committee's solution of this railway problem will be also appreciated for years by future new-comers to Canada though you will not be around for the hand-kiss.

A final plea—as you look around Parliament how many members of ethnic origin do you not find? and in your Committee?

With appreciation of your work and the expected satisfactory solution of this immigration problem.

Yours sincerely,

(Rev.) Leo Burns, S.J.

Director of Catholic Immigration

APPENDIX A-51

GUILDFORDS LIMITED

Head Office Burnside, Dartmouth, N.S., P.O. Box 609

February 12th, 1968.

Mr. R. V. Virr,  
Clerk of the Standing Committee on  
Transport and Communications,  
House of Commons,  
Ottawa, Ontario.

Subject: Brief on New LCL Freight Rates

Dear Sir:

As we are manufacturers and a distributing  
firm serving the four Atlantic Provinces with

building and allied construction materials it  
is of great concern to us the recent increases  
on LCL freight rates. Most of our materials  
being light in weight and being charged on  
a cubic foot rate we are being penalized as  
the following figures show.

OLD RATES PRIOR TO SEPTEMBER 5/68.

On a shipment of 35 cartons of Purlboard the  
weight would be 35 x 45 lbs. or 1575 lbs.  
from Dartmouth, N.S. To the following desti-  
nations the rate would be:

To Moncton, N.S. ....	1575 lbs @ 3.38/C	\$ 53.24
Sydney, N.S. ....	" " " 5.01/C	78.91
St. John's, Nfld. ....	" " " 7.25/C	114.19
Grand Falls, Nfld. ....	" " " 6.04/C	95.13
Saint John, N.B. ....	" " " 3.82/C	60.16

NEW RATES

On a shipment of 35 cartons of Purlboard  
the cubic feet would be 16 x 35 or 560 cubic

feet, we now must pay 560 x 10 or 5600 lbs.  
from Dartmouth, N.S. to the following desti-  
nations:

NEW RATES

To Moncton, N.B. ....	5600 lbs @ 1.19/C	\$ 66.64 + 25.1% increase
Sydney, N.S. ....	" " " 1.52/C	85.12 + 7.9% "
St. John's Nfld. ....	" " " 2.91/C	162.96 + 42.7% "
Grand Falls, Nfld. ....	" " " 2.40/C	137.76 + 44.8% "
Saint John, N.B. ....	" " " 1.19/C	66.64 + 10.8% "

As we produce some 3,000,000 bd. ft. of  
different building materials as above this  
amounting to some 15,625 cartons, over half  
of which are shipped by LCL means you can  
see that we will be penalized with great in-  
creases which we cannot absorb and would  
have to be passed on to the consumer. This  
in turn adds greatly to the inflation and  
economy of our Atlantic Provinces. We trust  
that you will see fit to make adjustments so  
that people like ourselves will not be pen-

alized because of lightweight shipping com-  
modities.

Yours very truly,  
GUILDFORDS LIMITED,  
A. D. Guildford,  
President.

c.c.  
His Worship Mayor Roland Thornhill,  
Dartmouth  
Mr. R. W. Manuge, I. E. L.

## APPENDIX A-52

BRIEF  
submitted by the  
CORNER BROOK CHAMBER OF  
COMMERCE  
to  
THE STANDING COMMITTEE OF THE  
HOUSE OF COMMONS ON  
TRANSPORT AND COMMUNICATIONS

Gentlemen:

Being islanders makes the people of Newfoundland probably more aware of the types and the quality of their transportation facilities.

As Corner Brook is the distribution centre for Western and Central Newfoundland, our awareness is even more acute. We are aware for example that the present port facilities are inadequate to an unbelievable degree. When you consider that Corner Brook is a seaport that is open year round and that the gross tonnage handled is the highest on the island, then you would expect harbour facilities of a comparable quality. The fact is, however, that our harbour facilities are woefully inadequate and, in fact, hazardous.

In this Brief we shall mention the following:

1. Corner Brook Harbour Development
2. Equitable freight rates
3. Canadian National Railway Passenger Service
4. Improved Air Canada Equipment and Schedules.

*Corner Brook Harbour Development*

On 3 August 1964, the Corner Brook Chamber of Commerce presented a Brief to the then Minister of Transport, the Honourable J. W. Pickersgill, entitled "The Urgent Need for Improved Docking and Freight Handling Facilities at the Port of Corner Brook, Newfoundland". As a result, in 1965 the Federal Department of Public Works engaged

McNamara Engineering to prepare an engineering survey. The survey was completed in December 1965. To date, the only word which we have received from the Department in Ottawa as to progress in the implementation of the McNamara study is an appropriation in the 1968 estimate of \$200,000.00 titled "Toward Harbour Development". Conditions on the waterfront have deteriorated since the Brief was presented—in fact, time has made Harbour Development a cogent necessity for this community.

Since this Chamber has placed the highest priority on Harbour Development and since the 1964 Brief is, in our opinion, still the definitive report on the need for improved harbour facilities, we include the complete Brief—"Submission to the Minister Honourable J. W. Pickersgill Minister of Transport in the Government of Canada with Respect to The Urgent Need for Improved Docking and Freight Handling Facilities at the Port of Corner Brook, Newfoundland".

The Chamber of Commerce of the City of Corner Brook hereby applies to the Minister of Transport of the Government of Canada for a comprehensive engineering study of the Port of Corner Brook, with a view of assessing its present and future needs in relation to the economy and development of the West Coast of the Province of Newfoundland.

The Chamber strongly feels that such a study is urgently required at the present time because:

- the Corner Brook Harbour is the only major deepsea port in Western Newfoundland and forms an essential factor in the economic life of the area;
- the Harbour growth has not kept pace with the development of the City of Corner Brook and surrounding areas;
- its facilities are obsolete, inadequate, hazardous and uneconomical to operate.
- there is no functioning body in authority to govern and control the functioning of the Port and integrate its operation with the economy and development of the City.



In what follows, we shall elaborate on and substantiate the above points.

### 1. The Port of Corner Brook

The port of Corner Brook is located on the South Shore of Humber Arm. The Arm is a deep-water, sheltered,  $1\frac{1}{4}$  mile wide inlet, extending about 21 miles inland from the Bay of Islands. The waterfront extends 6 miles from Humbermouth at the head of the Arm to the township of Curling, adjoining and amalgamated with the City of Corner Brook.

The central, main section of the waterfront adjoins the Bowater's Newfoundland Limited paper mill in Corner Brook proper.

The Port is known for its excellent sheltering characteristics under all prevailing winds, deep water and ample berthing and manoeuvring space. It is kept open as a year-round harbour by a moderate use of ice-breakers in severe winters. These characteristics should make it attractive as the major port on the West Coast of Newfoundland.

It is of paramount importance to the economy of not only Corner Brook but large surrounding areas as well.

The City of Corner Brook has grown up around the pulp and paper industry and continues to depend heavily on Bowater's Newfoundland Limited for employment for a large segment of its population and municipal revenues. The mill cannot function without the harbour to export its products and bring in the raw products.

Other major industries located in Corner Brook such as the plants of North Star Cement and Atlantic Gypsum Limited, also require efficient harbour facilities for their operations.

The bulk of the general cargo consumed by Corner Brook and surrounding areas is brought in by water. With the continuing growth and expansion of Western Newfoundland, for which Corner Brook is the main supply and distribution centre, the significance of the Harbour is self-evident. To illustrate this point further, we show below a list of shipping and transportation Companies using the Port for the landing of general cargoes:

Canadian National Railways, North Sydney and Coastal Services.

The Clarke Steamship Company Limited, Montreal.

Karlsen Shipping Company Limited, Halifax.

Blue Peter Steamship Limited, St. John's.

Furness, Withy and Company Limited, St. John's and Liverpool, England.

Enterprise Martins Company Montreal—  
Agents for direct sailings from Germany, Belgium and Holland.

### 2. Growth Pattern

Since confederation, Western Newfoundland in general and Corner Brook in particular have experienced a considerable expansion in their economies. New industries have been brought into the area and the population has increased considerably. The demands for new goods and services to be provided have increased proportionately.

The opening of the Trans Canada Highway and extension and improvements to the secondary highway network have turned Corner Brook into an increasingly important supply and distribution centre. It now services not only the West Coast of Newfoundland, but also the rapidly growing new mining communities on the Baie Verte and Great Northern Peninsulas as far as St. Anthony.

This trend is expected to continue in the future, reflecting the efforts of the governments of Newfoundland and Canada to stimulate further an already impressive industrial development. It was commented on by Project Planning Associated Limited in the 1962 Municipal Plan of the City of Corner Brook from which we quote as follows:

"As a distribution and transportation centre, however, Corner Brook appears to be increasing in relative importance. A new oil storage area is planned in addition to three existing tank farms. There has lately been a considerable demand for small warehousing facilities for wholesalers and manufacturer's agents".

In the following table we show some statistical data to illustrate the economic expansion of Corner Brook and surrounding areas.

## STATISTICAL DATA

City	1964	Past	
Population, Corner Brook .....	28,000	12,000	(1945)
Population surrounding areas services by Port of Corner Brook ....	129,640	97,920	(1951)
City Expenditures (per year) .....	\$ 1,635,000	843,000	(1956)
City Business Tax (per year) ....	172,000	61,000	(1956)
Vehicle Permits (per year) .....	16,000	8,000	(1956)
Building Permits (per year) .....	5,600	413	(1956)
Per Capita Income, Nfld. average male .....	2,645	1,342	(1951)
Gross Retail Sales .....	\$27,980,000	9,719,000	(1951)
Harbour			
Shipping tonnages .....	392,000	382,000	(1951)
Loaded .....	888,000	469,000	(1951)
Total .....	1,280,000	851,000	
Shipping companies berthing in Corner Brook regularly (not including ships owned and on Charter to Bowater's) .....	7	3	
Number of ships passing through Customs .....	728	370	(1953)
For Total Net Registered Tonnages of .....	907,000	615,000	(1953)

The economic expansion has put new demands on the Harbour facilities, which are not able to cope with them. It should be noted that the majority of the harbour installations were built from 1926 to 1930 and since then there have been no major capital expenditures on the general cargo and public docks.

Because these facilities have not kept pace with the growth of the area, they have become congested and inefficient to operate. They are also physically deteriorated. This condition has already had an adverse effect on further growth of the City by:

- increasing the cost of cargo handling
- resulting in diversion of harbour traffic to other ports
- stifling of interest by new industries to locate in the Corner Brook area.

Lack of suitable waterfront facilities has also an adverse effect on the potential tourist trade. For example, inquires about accommodations for summer cruise ships have had to be answered negatively due to non-availability of berthing facilities.

### 3. Waterfront Conditions

The central section of the existing Corner Brook waterfront consists of Bowaters and Western Terminals docks and the C.N.R. wharf. Both Bowaters and Western Terminals docks are timber docks on timber piles structures built in the 1920's. The C.N.R. Wharf is a modern, concrete structure on concrete piles. Completed in 1962.

The Bowater docks are used exclusively by the Mill. The C.N.R. Wharf is used by the coastal vessels and is not open for use by commercial firms. Thus the only public general cargo facilities are the docks operated under lease from Bowaters by Western Terminals Limited. These wharves, which are not even public in a strict sense, inasmuch as they are owned by the Bowater Company, are presently inadequate for the volume of cargo passing through them.

The terminal does not have adequate vehicular access and is not equipped with railway siding. The berthing aprons are too narrow and by today's standards structurally incapable of utilizing modern cargo handling methods. Due to inadequate warehouse storage capacity, cargo has to be stored in the open,

adding to the apron congestion and preventing the efficient use of mechanized equipment.

The warehouses are too small, congested with goods and have no ramps for rapid loading of trucks. Due to the lack of space, the incoming cargo is difficult to sort out by consignees resulting in delays and frequent need for double handling. The warehouses are usually crammed to capacity with minimum space left for the aisles. They operate all year round at their capacity of approximately 1,000 ton week. Because they are not able to handle more, the tonnages have remained uniform over the years and have not kept pace with the increasing demands.

Another factor which impedes port development is the complete lack of dock-aid and heavy lift equipment.

Large ships cannot berth at the Western Terminals wharves due to insufficient water depths which vary from 13 to 22'. This fact deprives the Port of Corner Brook of economic benefits accruing by shipping cargoes in large quantities.

At the present time these conditions result in excessive costs of cargo handling and breakage claims. These costs are of necessity passed on to the consumer with a detrimental effect on the cost of living.

The construction and conditions of the waterfront structures are such that they present a fire hazard and cause a grave anxiety regarding their safety. All of the old docks and sheds are of combustible timber construction, and dock piles coated with oil and tar. Furthermore, the congestion at the waterfront would not permit a rapid deploy of fire fighting equipment in extinguishing a localized fire.

Such a fire could develop into a major disaster which might wipe out a large part of the Port due to the concentration of docks in one area.

Within the past few years, fires at similarly constructed wharves in St. John's and Botwood have had a crippling effect on port operations. They are to us a grim example and reminder that a waterfront fire in Corner Brook could destroy facilities on which the whole community depends so heavily.

The ships' gear can handle lifts up to 5 tons only and a rented mobile crane is employed for heavier lifts. This crane, however, has a

limited capacity and furthermore can be used on the C.N.R. Wharf only, as other docks are too weak to carry its weight.

Loads over 25 tons cannot be handled at all and are therefore, lost to other ports of transportation.

#### 4. Port Authorities

There is a pressing need for setting up a functioning authority to govern the operation of the Port and plan its development in co-ordination with the already approved matter plan for the City of Corner brook.

At present there is no Harbour Commission in charge of the Port. A measure of control is exercised by Bowater's Company, through the office of their Marine Superintendent. This, however, is a care-taker arrangement of convenience only. The office has no authority over other organizations connected with the Port, such as the Humber Pilotage Association, the Shipping Master, Canada Customs and the Port Doctor.

The current chaotic conditions at the waterfront can be largely attributed to the lack of a governing body and co-ordination between the various users of the Port.

Well defined, authoritative controls are now long overdue to develop a long-term plan for the Harbour and integrate it with the City Plan to meet together the water, rail and highway transportation facilities.

#### Equitable Freight Rates

On September 5, 1967, a railway freight structure was introduced to the Atlantic Provinces which was subject to considerable criticism. On 9 November the Minister of Transport announced.

(1) That the C.N.R. and C.P.R. intend to make formal application to the Canadian Transport Commission to withdraw the present class rates (and presumably the non-competitive commodity rates) on less than carload shipments moving within the Atlantic Provinces, and out of the Atlantic Provinces westbound; and

(2) That the railways propose to substitute the present western rate scale for less than carload freight moving within the Atlantic Provinces as amended to reflect reductions under the Maritime Freight Rates Act.



Subsequently, the Maritime Transportation Commission made a submission to the Minister of Transport, asking

(1) That the reduction in intra-Maritime rates referred to in the Minister's announcement of 9 November be implemented at once;

(2) That the railways be required to withhold their application to cancel the existing less than carload freight rates, at least until a new regional transportation policy is developed and implemented;

(3) That the so-called density rule be reduced from one cubic foot equalling ten pounds to one cubic foot equalling five pounds; and

(4) That immediate steps be taken to extend the Maritime Freight Rates Act subsidies to other forms of transport.

We have also been informed that the Maritime Transportation Commission will be submitting a Brief to this Committee. As far as freight rates and subsidies are concerned, we feel that they will be able to present more knowledgeable information that we can at this time—considering the time that we were given to research and prepare these Briefs.

#### *Canadian National Railway Passenger Service*

This service has been an essential part of the transportation system of Newfoundland. The completion of the Trans Canada Highway coupled with the low standard of the railway service has undoubtedly resulted in the Newfoundland Railway Service operating at a deficit. However, we fully support the submission made by the Government of Newfoundland requesting that the rail-passenger service be operated in conjunction with the proposed bus service until 1970. This will give all parties concerned the time to study the comparative value of each of these services both from a profitability factor as well as passenger service factor.

This Chamber does find it rather incongruous that the C.N.R. has been expanding and modernizing its passenger services in Main-

land Canada and at the same time attempting to stop rail passenger service in Newfoundland. We are quite willing to being submitted to an experiment such as the Rapido Service now operating between Quebec City, Montreal and Toronto.

#### *Air Canada Service*

The winter schedule of Air Canada presently has two flights daily both Eastward and Westward. Our complaint is not about the service provided by Air Canada—although we feel that the substitution of Viscounts for Vanguard aircraft on two flights is a backward step—but about the schedule. Flight 333 departs at 9:55 A.M. and arrives at Halifax at 11:45 A.M.—incidentally this flight goes on to Boston. Then passengers going to points in Canada beyond Halifax, must wait until 1:35 P.M. Returning from Central Canada we have two flights—flight 510 departs at 12:45 P.M. Our complaint is directed against flight 510 which departs from Montreal at 1:35 A.M. and arrives in Stephenville at 8:00 A.M. In addition to having to fly all night, this flight is frequently late in departing and we suggest that the handling of the heavy freight load is a contributing factor. Finally this Chamber is opposed to any regional air policy that would mean the replacement of Air Canada service in Stephenville by a regional carrier. We feel that this change would only further disappoint travelling schedules between Western Newfoundland and the Mainland and would likely mean a further deterioration in service.

#### *Summary*

Of the four transportation problems enumerated in our Brief, we feel that the most urgent and necessary to the City of Corner Brook is the Harbour Development. Without it, Corner Brook will lose its position as the seaport and port of entry to the West Coast of Newfoundland and its deterioration will mean that the City will stagnate and that a fine natural harbour will be wasted.

Dated at Corner Brook, Newfoundland, this twentieth day of February A.D. 1968.

## APPENDIX A-53

## SUBMISSION

by

PRICE (Nfld.) PULP AND PAPER  
LIMITED

14th March, 1968

## HISTORICAL

The Company is engaged in the manufacture of newsprint and unbleached sulphite pulp at Grand Falls, Newfoundland. Production started in 1909 with an initial capacity of 30,000 tons per annum. Heavy capital expenditures in new paper machines and the rehabilitation of some of the older machines have increased production to approximately 275,000 TPA with an average daily capacity of about 800 tons. The Company recently decided to replace four of its oldest paper machines with a modern, high speed unit which cost \$20 million to install.

## CORPORATE STRUCTURE

Prior to 1965 the Company operated in Newfoundland as the Anglo-Newfoundland Development Co., Ltd. Since 1961 the Company has been a subsidiary and integral part of The Price Company, Limited, with Head Office at Quebec, P.Q. This merger created Canada's fifth largest group of pulp and paper manufacturers, ranking fourth in the newsprint field, and producing annually 10 percent of the national output.

## CONTENT OF SUBMISSION

While the Company is directly or indirectly involved in all phases of transportation as they affect the Province, it is the intention of this submission to deal specifically with transportation as it affects pulpwood procurement. Regarding such matters as general ocean, rail, and air services, it is the Company's opinion that these matters can best be dealt with by the Newfoundland Board of Trade and other organizations in the commercial community which are more closely associated with those services as they affect the Province as a whole.

## GENERAL CONSIDERATIONS

Almost all of the Company's newsprint production is sold on foreign markets in competition with local producers and/or other Canadian and foreign manufacturers. Our current markets are in the U.S.A., United Kingdom, Latin America and Australia.

Our ability to compete in such markets depends upon the production of quality newsprint and its delivery to press rooms at a cost reasonably below the market price. In this respect, the economic production and transportation of fresh pulpwood to the mill at Grand Falls is a most vital factor.

In recent years the Company has found it necessary to spend large amounts annually on a continuing program designed to change the seasonal nature of its logging operations with a view to improving newsprint quality through the utilization of fresh wood. The continued success of this program is dependent upon the efficient overland movement of pulpwood to the mill at competitive cost.

Concurrently with this program of improvement in the pulpwood procurement phase of production, the Company has continued its long-term policy of overall plant modernization and expansion. Again, the emphasis here is on production of a quality product at the lowest possible cost.

In spite of these recent improvements, there is no doubt that the Company is operating in a less favourable geographic and economic environment than much of our competition (see Exhibit A). Some of the disadvantages include:

- (1) The relative shortage of social capital, especially in the area of public road development and standards;
- (2) Low pulpwood volumes per gross acre of timber limits and per tree which have a direct effect on logging costs;
- (3) Mill location away from direct shipping facilities;
- (4) Geographic isolation from sources of equipment and supplies.

It is acknowledged that the environment for industrial development in Central New-



foundland has much improved in recent years. The provision of additional electrical energy has made the greatest contribution and while the public road system has also improved substantially, much still remains to be done.

### PULPWOOD PROCUREMENT

During 1967 a total of 358,246 cords of pulpwood were delivered to the mill at Grand Falls by the following methods:

(1) Truck haul to driveable streams coupled with river drive to mill: 194,808 cords or 54.4 percent of production over a maximum delivery distance of 125 miles.

(2) Truck haul direct to mill: 137,155 cords or 38.3 percent of production over an average hauling distance of 26 miles ranging from 17 to 75 miles.

(3) Truck haul to driveable streams coupled with river drive to railhead, and rail haul to mill: 26,283 cords or 7.3 percent of production; rail distance 88 miles, total average distance 115 miles.

The overall average delivery distance is currently just over 50 miles. This would increase if through further improvement in the area of transportation it became economically possible to harvest wood from presently inaccessible timber limit holdings.

In this industry profitable operation depends to a large extent on the solution of the problems involved in the production and movement of pulpwood over relatively long distances. In Newfoundland, as previously indicated, these problems are generally much more acute than elsewhere because of the nature of our forests and the relatively underdeveloped highway systems compared, for example, with Canada and the U.S.A.

Until recent years river driving was used exclusively for either direct delivery to the mill or as an intermediate transportation method for practically all our wood requirements. From the foregoing figures it is obvious that it is still an important means of delivery from certain areas. However, the relative economics of this system are constantly under review.

Truck transport permits a continuous flow of wood, compared with the seasonal movement inherent in river driving and offers several advantages over the latter, including:

(1) Less working capital tied up in wood inventories.

(2) No intermediate handling and therefore less cost in this area.

(3) No deterioration of wood fibre in transit.

(4) Elimination of wood loss through sinkage and other factors inherent in river driving.

In short, in this very competitive industry, it is essential that the volume of direct stump-to-mill delivered wood be increased to the full extent allowed by highroad accessibility.

### RECOMMENDATIONS

In an economy absolutely dependent on export markets, and deficient in social capital facilities, it is necessary that direct and indirect forms of Federal Government assistance be employed to insure that this Province's economic pace is accelerated. In this respect the provision of low cost transportation is essential.

Because of the transportation problems peculiar to Newfoundland, we feel that it is in the National as well as the Provincial interest for the Federal Government to take the following important steps:

(1) Assure continuance of the provisions of the Maritime Freight Rates Act as a minimum subsidy and consider increasing this subsidy in Newfoundland.

(2) Extend the provisions of the Maritime Freight Rates Act to include other modes of transportation.

(3) Provide funds for the development of an adequate system of all-weather trunk roads and secondary roads to enable presently inaccessible pulpwood resources to be fully developed.

We submit that Federal assistance in these areas is necessary for the development of locations that suffer from the disadvantages of geographic isolation and scattered populations.

Price (Nfld.) appreciates this opportunity to express their views on the very important subject of transportation, and look forward with anticipation to your recommendations as they especially apply to Newfoundland.

Respectfully submitted,  
Price (Nfld.) Pulp and Paper  
Limited  
Secretary-Treasurer.



Exhibit A

*Comparison of a Transportation Cost in Newfoundland and Quebec*

The Price Company recently installed two identical newsprint machines, one at Alma, Quebec, and the other at Grand Falls, Newfoundland. The machine at Alma was completed in the Fall of 1967 and the one at Grand Falls at the beginning of 1968. Except for the construction steel which came from Nova

Scotia for the Grand Falls mill, and from Quebec for the Alma mill, the source of equipment and material was the same in both cases. However, the cost of transporting all equipment and material from source to construction location was as follows:

Grand Falls, Newfoundland ....	432,415.08
Alma, Quebec .....	202,309.13
Difference .....	<u>\$230,105.95</u>

## APPENDIX A-54

BRIEF BY

ANNAPOLIS VALLEY AFFILIATED  
BOARDS OF TRADE

Mr. Chairman, and Gentlemen:

We appear before you today to impress upon you the urgent need for modernized ferry service between Western Nova Scotia and the Province of New Brunswick.

The contents of this brief have been unanimously approved by the executive councils of the governments of Nova Scotia and New Brunswick.

This brief represents the total attitude and support of government on the provincial and local level throughout both provinces in addition to that of the Maritimes Transportation Commission, Boards of Trade, Chambers of Commerce, Industry, Business, Labour Organizations, Tourism and citizens throughout the provinces of Nova Scotia and New Brunswick.

The Government of Canada is aware of the historic association that has linked these two areas in the Atlantic Provinces as a natural trading community of people, of the economic interdependence and of the social and cultural interchange that has been shared by both Southwestern Nova Scotia and New Brunswick. The importance of this service to Canada has been well established during war time.

Tradition has further established that the only direct and logical link between these regions is the crossing of the Bay of Fundy or the Digby-Saint John Ferry Service.

## THE NOVA SCOTIA POSITION

A glance at the map of Nova Scotia will show that the South-western area of that province is almost an island and that, lacking water transportation, a long detour by highway to Eastern Nova Scotia and New Brunswick is involved in shipping its producers to market. Under presently existing transportation conditions the investment now being made by the Federal Government in establishing the Kejimikujik National Park, the entrance to which is located approximately

thirty miles from the Port of Digby, will be almost impossible to be utilized to the fullest extent. Therefore, in order to obtain the maximum benefit possible, improved transportation facilities are urgently required. The lack of a modern, fast ferry service is retarding the development of what should be, and would be, Nova Scotia's most prosperous and fastest growing area.

The logical and proper link between this area and New Brunswick is, as we are sure you realize, the ferry service from Digby to Saint John. The present service which has been operated for a number of years is completely inadequate. The ship makes only one return trip per day, operating only six days of the week. It is completely unable to handle bulk carload shipments; it is of only limited value to the tourist trade. Small freight and express shipments and packaged carload quantities are handled on the ship, but costs are high due to excessive handling, and delays more than offset the advantages that should exist over such a short route. This situation is one of the reasons for the retarded economic development of the area and proof of this statement is to be found in the fact that very few of the new industries being located in Nova Scotia during recent years have come to Western Nova Scotia, despite all federal incentive programs. The problems of transportation into and out of the area, as they now exist, are unreasonable.

People in Western Nova Scotia have been awaiting impatiently for more than ten years believing that the terminal at Digby was to be modernized. In point of fact, however, the years have gone by and nothing has been done. The patience of the people is becoming exhausted and they are beginning to lose faith and confidence in the future of the area unless adequate transportation is provided. This lack of confidence has a depressing effect on business and investment and thus a tremendous potential which could be derived from the character of the people in Western Nova Scotia, and from the otherwise favourable geographical conditions, climate, soil, fishing ports, and so on, will not fully be developed until better transportation facilities are provided.

## THE NEW BRUNSWICK POSITION

The New Brunswick representatives supporting this brief maintain that a modern Bay of Fundy Service is vital to the industrial expansion of the Province of New Brunswick as a whole and specifically its major growth center—Saint John. The problem of regional distribution—under existing transportation handicaps and shipping costs, almost prohibit the consideration of the potentially important markets of Southwestern Nova Scotia within the marketing program of new industry interested in locating in New Brunswick.

Existing industry in Southern New Brunswick has long been under a competitive handicap in the distribution of their production into Southwestern Nova Scotia and beyond because of the inadequate existing ferry service and its failure to provide fast and more frequent service.

The natural trading, shopping and business advantages of both areas bordering on the Bay of Fundy has long been penalized to the detriment of both Nova Scotia and New Brunswick. A modern, multiple daily service across the 40-mile Bay would stimulate and enhance these mutual benefits.

Tourism in Nova Scotia and New Brunswick has had a phenomenal growth in recent years. This important industry has a dollar value estimated at approximately one hundred and forty million dollars (both provinces). The potential of the American and the Canadian tourist trade is unlimited within this area. Traditionally the Digby-Saint John Ferry Service has played a significant role in this industry to the advantage of both provinces. This role will only be exploited to its full potential by a modern, efficient service on a frequent daily-crossing schedule.

## INADEQUACY OF PRESENT SERVICE OBVIOUS

The inadequacy of the present and the previous steamships crossing the Bay of Fundy has been generally evident to all concerned since the Second World War. Perhaps a primary factor related to the economies of operation has been the failure of this facility to adequately accommodate the varied types of traffic including substantial transport vehicles and a greater number of tourists' motorcars.

A further deterrent to successful operations has been the outmoded and outdated nature

of cargo handling and the antiquated condition of dockside facilities including passenger terminals on both sides of the Bay of Fundy. This we suggest has created a substantial detriment to the growth of commerce, industry and tourism both in the Province of New Brunswick and the Province of Nova Scotia. It is the contention of those associated with this brief that action is imperative now that will bring about decisions by the Federal Government to proceed at once with the total rehabilitation of this service and to allocate the required funds to provide new terminal facilities and a modern ferry vessel.

## DUTY OF GOVERNMENT TO RELIEVE

As has been said so many times, the event we celebrated over the past year was intended to tie together the Provinces for mutual benefit. The chief incentive offered the uniting Provinces was rail connection. Rail connection to and from western Nova Scotia can be achieved only by a satisfactory ferry link. We respectfully submit, and do not consider ourselves to be presumptuous, that it is the duty of the governments to provide this service. Similar service has been provided elsewhere in Canada.

In presenting this brief before you today, we seek complete endorsement of our proposal that a completely new and modern Bay of Fundy Service be planned at once. The federal government should now take immediate steps to see that a new ferry service is established between Digby, N. S. and Saint John, N. B. to accommodate all highway and railway traffic for present and future needs, whosoever the owner may be. The terminals should be available in the event of future transport requirements related to public needs.

Recent discussions with senior executives of the present operating Company have indicated that the Company is prepared to furnish an improved service between the two ports, with acquisition of a modern roll-on, roll-off type of vessel. This, however, is dependent on suitable arrangements being made with the Federal Government for provision of new terminal facilities at the Ports of Digby and Saint John.

In addition to the new terminal facilities, we believe that the present or alternate steamship operators should receive financial assistance in the acquisition or construction of the new roll-on, roll-off vessel, as well as



relief from terminal and docking charges which have been levied against this operation for many years. We propose that these latter charges be waived or substantially reduced in order that the deserved service may be provided. This in no way establishes a precedent for this type of assistance as the waiving, or reduction of such terminal charges plus the provision of substantial subsidies for private operators have long been the practice in connection with other ferry service operations throughout the Atlantic Region.

#### TYPE OF SERVICE

Required is a multiple daily service on the basis of seven days a week on a year around schedule providing modern loading techniques, including provision for the accommodation of truck and trailer combinations with or without power units, containerized freight shipments and adequate tourist accommodation. The establishment of new docking facilities and the vessel itself must be so provided to care for all present and anticipated volumes and character of traffic. A service similar to that now provided between Cape Tormentine, New Brunswick and Borden, P.E.I., with the exception of rail-car carrying capacity, is the vision of the people of the Digby-Saint John area. The crossing must be arranged so as to provide the most frequent service possible. At least two trips per day are absolutely essential at the present time and as traffic and demand increase, so must the number of crossings. Competitive rates in keeping with the shortest distance involved are essential and should be taken into account in determining the amount of financial support.

#### RECOMMENDATIONS

Mr. Chairman, we are here to stress the economic validity and urgency of this proposal. We ask the Government of Canada for a definite commitment that arrangements be made immediately to bring about the following:

(a) The provision of the necessary modern terminal facilities and that such facilities be constructed to meet present and foreseeable requirements of the operating company;

(b) The encouragement of the operating company to proceed immediately with the construction or acquisition of a modern vessel providing fully integrated service

for the varied traffic that will be handled between the Ports of Digby and Saint John;

(c) That the construction of such docks, cargo and passenger handling terminals be designed so as to provide the facilities for a multiple daily service on the basis of a seven-day week and on a year-round schedule. This is essential to encourage the more extensive use of this service in the movement of freight cargoes generally as well as the quicker dispatch of the thousands of tourists and their automobiles who would normally avail themselves of such service;

(d) This brief further proposes that a service be fully integrated to accommodate all types of transport and vehicular traffic including the carriage of trucks and tractor-trailer combinations with or without the power units;

(e) That adequate provision be made for the comfort of the travelling public including stateroom facilities, overnight accommodations, restaurant and other amenities demanded today.

(f) That the rate and fare charged to the public should be maintained at a minimum charge in order to stimulate traffic and eliminate the deterrent factor of high transportation costs to industry. These competitive rates must be economically advantageous in order to stimulate the potential growth of this area, so long deprived of adequate transportation facilities.

Mr. Chairman, on behalf of the delegation present, and those whom we represent, may we express our thanks for the time given and the interest shown in this important subject placed before you today.

C. D. Snow, Digby, Chairman,  
AVABT Transportation Committee.

February 10, 1968.

#### THE GOVERNMENT OF CANADA RE: FREIGHT RATES

The people of Western Nova Scotia are most concerned about our economic stagnation. Existing industries and business concerns are now being handicapped by new freight rate structures. Our people depending on farming, fishing and fruit industries, are unable to

market their produce because government, past and present, have failed to look ahead and plan for the future by completely neglecting the transportation needs and costs; a basic factor for the well being of the economy of Western Nova Scotia and a major factor in the economy of our province as a whole.

The new less than carload freight schedule is helping to widen the economic gap between the Maritimes and the rest of Canada and if these handicaps keep mounting, we here in the Western part of Nova Scotia won't be the place for industry.

It is not a simple matter to point to a statute or other authority which contains a clear-cut statement concerning our transportation rights at the time of Confederation. These rights were in more implied terms than a written guarantee.

The only written part was the construction of the railway as set out in the British North America Act. Our argument has been over the years, that coupled with the construction of the railway was the promise of a rate structure for the needs of our commerce. This was given quasi official recognition by the Maritime Commission on Royal Claims (the so-called Duncan Commission of 1926) when it said on page 21 the Intercolonial railway was completed in 1876 and it would appear from the evidence we have received that from then until 1912 the interests of the Maritime Provinces were fairly well safeguarded, the freight rate structure being such as to take into account the requirements of their traffic. The lower level of returns that prevailed on the Intercolonial Railway system prior to 1912 is, in our view, rightly to be interpreted as the fulfilment by successive governments of the policy and pledges that surrounded the railway from its inception, whatever impressions may have been created by the form of its administration.

After consultation with the Maritime Transportation Commission our organization submitted the following resolution to the Minister of Transport. Our position remains unchanged.

WHEREAS the new LCL freight rates recently announced by the railways have resulted in a substantial increase in the costs of transport of goods into and out of the Annapolis Valley,

AND WHEREAS the Maritime Freight Rates Act does not apply to incoming ship-

ments with the result that the retailers and consumers of this area must bear the full brunt of the increased LCL rates,

AND WHEREAS it is the policy of the Government of Canada to encourage economic development in the Maritime Provinces and for this purpose the improvement of transport facilities has been given priority,

AND WHEREAS the substantial increases in LCL rates will have a very detrimental affect, not only on outgoing shipments by local manufacturers, but also on the costs of living resulting from increased freight rates on all incoming shipments, which will tend to defeat the objective of the Government of Canada,

AND WHEREAS the announcement of November 9 by the Minister of Transport provides for no reduction in railway non-carload rates into or out of the Atlantic Provinces,

THEREFORE BE IT RESOLVED that immediate representation be made to the Minister of Transport and other government officials and departments to request;

- (1) railways to reduce the so-called density rule from 10 lbs. per cu. ft. to 5 lbs. per cu. ft;
- (2) to maintain existing less than carload freight rates;
- (3) to implement as soon as possible reduction in the intra-Maritime rates announced by the Minister of Transport on November 9;
- (4) to extend the Maritime Freight Rates Act subsidies to other transport modes as a measure to hold down transportation costs and to develop effective competitive and alternative transport services.

#### THE GOVERNMENT OF CANADA RE: PETITE PASSAGE CROSSING

##### *Geography*

The Digby Neck and Islands area is situated on the western tip of Nova Scotia in the Bay of Fundy. Long Island is separated from Digby Neck by Petite Passage, a narrow strip of water approximately  $\frac{1}{4}$  mile wide. The rips formed by the famous Bay of Fundy tides, which surround this area, produce one of the most lucrative fishing grounds in the world.



### *History*

The Islands were settled in 1790 as fishing communities, by the United Empire Loyalists. Today, as in earlier times fishing remains the main industry of this area. The communities, when settled, were in the center of the water travel which, at that time, was a most economical means of transportation. This available economical means of transportation contributed greatly to a prosperous growth of these fishing communities. Transportation facilities reached their peak in this area in the early 20's when a steamship line was operated between the Island ports, Saint John and Yarmouth. A St. Mary's Bay ferry service for passengers between the Islands and Weymouth and Meteghan was also operated. In addition coastal vessels carried local fish products to Maritime and New England ports and at times carrying dried salt fish to the West Indies returning with their cargoes of salt, sugar and rum. At that time the ferry service across Petite Passage for either passenger, vehicles or animals consisted of a scow towed by a motor boat, operating during daylight hours and fine weather.

The coastal vessels are now a thing of the past, the last being the M. V. Mohawk on the Saint John-Yarmouth run which was removed in 1965. All ferry services have been discontinued except that across Petite and Grand Passages which operates now as it did in the past, crossing only in daylight hours and fine weather. Modern highways and the development of trailer-truck transportation has completely altered the flow of goods and services to and from the Islands within recent years. The whole area is now completely dependent upon its highway link with Digby, which consists of a modern paved all-weather highway, broken by Petite and Grand Passages, serviced by highly inadequate ferries which can only be operated as they did 50 years ago—only in fine weather and during daylight hours.

The history of other parts of Nova Scotia during the time of this inadequate ferry system has been of immense growth in the processing and handling of fish. The salt fish production has dwindled and the required investments of expensive machinery and technical aids have become the basis of the fishing industry. The large subsidized ocean going trawlers have replaced the small boats and the change shows every indication of continuing at an accelerated rate in the future.

The antiquated ferry system in the center of a transportation system is strangling a fishing industry located in the center of the greatest potential fishing in North America, as fishing statistics well indicate; in reference to this in 1967, District 37, which covers Digby Neck and Islands, landed twice the volume of fish as the entire province of Prince Edward Island. If this condition of inadequate transportation is allowed to continue, it will only produce a retardation rather than progress, which will affect the whole of Canada as well as Nova Scotia.

### *Education*

The present facilities for education on Long Island and Briar Island are limited to the school buildings at Freeport and Westport. These facilities cannot look after the needs of high school students entirely. Laboratory and scientific apparatus is only available in Digby, 40 miles away. Although these schools are capable of providing an academic course or a general course, they cannot provide both. With transportation facilities such as exist at the present time it is impossible for children at the Grade 8 and 9 level to attend the Digby school where all courses are taught; this leads to excessive drop-outs and eventually more adults in the unemployment line. The teachers themselves find difficulty in attending Association Meetings in Digby or other communities on the Mainland since they cannot be assured of transportation to and from the Island. The school students themselves are denied the opportunity of association with other students of their own age and the use of the recreational and religious facilities of the Mainland. Even those not of school age are denied the opportunity of taking part in cultural activities or adult education in Digby because of the ferry service.

### *Medical Facilities*

A doctor resides in Freeport and serves the entire two Islands, without a hospital or clinic. There is also no nurse available, nor proper undertaking facilities.

A serious illness requiring hospitalization or special treatment becomes a nightmarish experience at night. If inclement weather prevents the use of the scow being towed, it then becomes necessary to remove the patient from the stretcher as the boat is incapable of accommodating a stretcher. In the case of extreme bad weather the transporting of a patient under these conditions can result in further injury or a casualty.



*Tourist Industry*

A great potential exists in this area in deep sea sports fishing, hunting, historical sites, as well as bird watching. However, the tourist industry is completely undeveloped, this being caused by the fact that strangers hesitate to cross a stretch of water on the outdated ferry system that is presently used.

*Freeport-Eastport, Maine*

The need for a second ferry service between Nova Scotia and the United States has been stressed by A. D. Margison and Associates Ltd., in a study of terminal locations for a second Nova Scotia-New England ferry service. This need could be quickly remedied by a permanent link with the mainland and the construction of a ferry to operate between Freeport on the western end of Long Island and Eastport, Maine, a distance of only 40 miles across the Bay of Fundy. The permanent crossing could make this ferry service a practical answer to the existing second ferry problem.

The present operating ferries are now occupying two wharves worth a combined total of

\$700,000.00. These wharves are used solely for the ferry at Petite Passage. With the construction of a permanent crossing, these two wharves could be made available for fisheries use.

We therefore propose that since the improvements in this transportation system are now two decades overdue, and that every day's delay is causing a retardation in the industrial and economic growth of the Island that;

- (1) Immediate action be taken to provide the Islands with a permanent link to the mainland;
- (2) whereas the most economical solution could be in the provision of a combination regional harbour for
  - (a) the fishing fleet, and
  - (b) a permanent crossing combination, that this be given careful study, and
- (3) pending construction of this permanent crossing that the present ferry service be immediately improved to provide 24 hour free service.

## APPENDIX A-55

## SUBMISSION

## BY THE

## YARMOUTH BOARD OF TRADE

February 8, 1968

WHEREAS the greatest potential for future development in Western Nova Scotia is associated with the fishing industry, the tourist industry, and the agricultural and industrial products industries;

AND WHEREAS the markets for the fishing and agricultural and industrial products industries are largely the United States and Central Canada;

AND WHEREAS the tourist potential is also largely in the United States and Central Canada;

AND WHEREAS adequate water transportation is essential to the development of all of these industries;

AND WHEREAS existing water transportation is grossly inadequate to service these needs;

BE IT RESOLVED that the Yarmouth Board of Trade earnestly petitions the House of Commons Standing Committee on Transport and Communications to consider and report on means of improvement of the water transportation

(1) between Yarmouth and New England

(2) between Digby, Nova Scotia and Saint John, New Brunswick

The Yarmouth Board of Trade, in arriving at this resolution, thoroughly studied the Margison Report, which covered an investigation on water transportation between various ports in New England and New Brunswick to various ports in Nova Scotia.

The Yarmouth Board disagreed with some of the conclusions of the Margison Report, and the reasons for this differing in conclusions are attached hereto and help show why the Board feels the above resolution is one the Standing Committee on Transport and Communications should find worthy of consideration.

*The Yarmouth Board of Trade assessment of the Margison Report*

Following a 9 months study of the Margison Report, the special Board of Trade Committee designated to inquire into the feasibility of Margison Report recommendations has issued a report calling for a new double round trip run per day on the Saint John-Digby service and a supplemental Yarmouth-Bar Harbour run, particularly during the summer for cars and part of the winter for trucks. The committee consisted of Capt. J. C. Kernick, Pres. of the Board of Trade; Walter Sweeney, Chairman of the Fisheries and Harbour Committee of the Board; George A. Snow, MLA for Yarmouth Co.; and Robert B. Killam, P. Eng. and was assisted by outside professional help for which they express their thanks and appreciation.

Their report was first submitted to and approved by the Board in June 1966, but as their conclusions differed so widely from those of the Margison Report, the committee sought and obtained a thorough checking of their findings. This checking confirmed their conclusions and the Board of Trade at its March 7, 1967 meeting reaffirmed its approval.

In arriving at its recommendations, the committee assessed the following points:

1. The committee felt ferry operating costs are not directly proportional to mileage, but a better proportion is not yet available.

2. The Margison Report shows the cheapest route is by road for about  $\frac{2}{3}$  of the potential N.S. tourists and hence costs to tourists may not be the main drawing card for water ferries.

3. The committee felt the Princess of Acadia, at its present traffic rates, would not stay on the Saint John-Digby run, if Welshpool-Digby run were established with traffic rates proportional to the mileage of the Yarmouth-Bar Harbour route. If this happened N.S. to N.B. ferry traffic would have to clear customs twice.

4. The committee felt a 2nd Bluenose side loading, could be put on with minor terminal capital cost and not double terminal operating costs. Aside from new

parking area in Bar Harbour, no new custom facilities would be needed.

5. The committee feels the 1,000,000 plus tourists per year now visiting Mt. Desert Island (where Bar Harbour is) provide one of the best potential traffic starting points and it is easier and better to increase a present service than to inaugurate a new one.

6. There is a question of a replacement of the MV Bluenose in the foreseeable future, and if a new boat were put on the present Bluenose could be used in the summer peaks on the Yarmouth-Bar Harbour run and as a refit replacement for the Yarmouth-Bar Harbour and other runs.

7. The committee arranged for a traffic survey at Yarmouth for cars coming off the MV Bluenose for the period July 21/66 to Aug. 4/66. This survey indicated 1045 cars would be using Route #1 and 1019 on Route #3. Daily variations showed 92 cars for Route #1 and 54 for #3 with the other extreme being 54 for Route #1 and 69 for Route #3.

8. The committee assumed all incoming potential ferry traffic would go through Bangor Me. and recalculated the 12¢ per mile Margison Table (see page 31 of the Margison Report) for Route #1 (Land), Route 2 (St. John-Digby), Route 3 (Yarmouth-Bar Harbour), Route 8 (Bar Harbour-Digby), Route 10 (Eastport-Digby) and Route 17 (Welshpool-Digby), with tourist destination points of Halifax, Lunenburg, Shelburne, Yarmouth and Digby. The sum of tourist travel costs for these lesser number of routes from the one starting point confirm Welshpool-Digby as the cheapest travel route for cars and trucks. For trucks, however, Yarmouth-Bar Harbour moves up from 4th to 2nd. Recalculating Route #2 using car ferry rates proportional to mileage of the Yarmouth-Bar Harbour route instead of the present Princess of Acadia rates, shows Route #2 the cheapest traffic route followed by Route #17 with Route #3 still 4th. Recalculating the time chart shows Route #3 the quickest with Route #2 5th.

The conclusion drawn by the committee from all these points is that they feel the Welshpool-Digby route (#17) with traffic rates proportional to the Yarmouth-Bar Harbour mileage, will force the Saint John-Digby ferry (Route #2) off; and as the committee

feels this Saint John-Digby run is essential, they feel a new double round trip run per day, Saint John-Digby, should be considered, particularly if new ferry route rates are going to be considered proportional to the mileage of the Yarmouth-Bar Harbour run. The committee also feels a supplemental Yarmouth-Bar Harbour run is warranted, particularly during the summer for cars and parts of the winter for trucks and means to achieve this end should be considered.

June 30, 1965

The following are some of the reasons why the Yarmouth Board of Trade feels Yarmouth should be the terminus of a second ferry from Nova Scotia to New England:

1. A modern terminal now exists at Yarmouth.

2. Little, if any, additional terminal expense involved at the Yarmouth end of the run, to be charged to a second boat, since only a small increase in customs and other terminal staff would be required.

3. Along the South Shore of Nova Scotia the tides have less rise and fall than at Yarmouth, and wharfage facilities are thus simpler, but the distance by water is greater than from Yarmouth.

4. Up the Bay of Fundy the sea voyage is less than from Yarmouth but the higher tides make construction of the new terminus required more expensive.

5. If such a second boat was designed to fit the Yarmouth to Bar Harbour service, it could be used to provide year round service on that run, without interruptions for overhaul.

6. Yarmouth is the junction of the two main highways in Western Nova Scotia—Route 1 and 3.

7. Yarmouth is the terminus, for the Annapolis Valley to Halifax run, of the Canadian Pacific Railway and the Acadian Coach Lines; the terminus for the South Shore to Halifax run of the Canadian National Railways and the McKenzie Coach Lines; and is a scheduled stop for Air Canada on its Halifax to Boston flights.

8. Large tourist accommodations are presently available.

9. Good ship servicing facilities are now available—plentiful supply of fresh water, good machine shops, good food servicing supplies, etc.



APPENDIX A-56

BRIEF BY  
SHELBURNE AND DISTRICT  
BOARD OF TRADE

Shelburne, Nova Scotia,  
February 12, 1968.

INTRODUCTION

1. This brief is submitted by the Shelburne and District Board of Trade, Shelburne, Nova Scotia. The presentation provides an outline summary of the general economic situation in Shelburne and its environs to illustrate why the unfavourable aspects of freight rate increases have a disproportionately adverse impact in this area of the country.

2. Shelburne County is located on the south shore of Nova Scotia. The principal harbours are Barrington, Port La Tour, Cape Negro, Shelburne, Jordan River, Ragged Islands, Clyde and Roseway. Cape Sable Island is the most important island. The soil is rocky, perhaps a quarter of it being granite, with large barrens and peat bogs, but there are valuable timber lands. Fisheries, shipbuilding and lumbering are the primary industries.

3. The town of Shelburne is situated at the head waters of Shelburne Harbour which is known as the third finest natural harbour in the world. The town is ten miles inland from

the Atlantic coast and thus is practically free from ocean fog. Shelburne is not a factory town; its industries are small and based principally on lumbering, fishing and boat building. The town produces boats and equipment, monuments and stone work from local granite, cured fish, lumber and wood products, including laminated wooden furniture. The local newspaper, The Coast Guard, has a circulation of approximately three thousand subscribers.

4. A large proportion of the employment in Shelburne County is seasonable. There is a substantial labour force which has a considerable degree of manual dexterity, but is not highly trained in any one of the sophisticated mechanical skills. They are, however, readily adaptable and responsive to training in new skills.

CLIMATE

5. The annual mean temperature is 44°F with an average annual temperature range from a high of 75°F in July to a low of 13°F in February. The average annual snowfall is 67.3 inches and the average annual rainfall is 52.8 inches.

POPULATION

6. Official population statistical data for Shelburne Town and County are as follows:

(a) Total population

	1951		1956		1961	
	Town	County	Town	County	Town	County
Male.....	971	7,366	1,151	7,526	1,182	7,831
Female.....	1,069	7,026	1,186	7,078	1,226	7,377
Total.....	2,040	14,392	2,337	14,604	2,408	15,208

(b) Age distribution (1961)

	0-14	15-24	25-44	45-64	65-
Town—Total.....	826	379	573	394	238
Male.....	429	189	265	196	103
Female.....	395	190	308	198	135
%.....	34.2	15.7	23.8	14.4	9.9
County—Total.....	5,332	2,258	3,424	2,602	1,597
Male.....	2,769	1,206	1,723	1,372	761
Female.....	2,563	1,047	1,701	1,230	836
%.....	35.1	14.8	22.5	17.1	10.5
Nova Scotia %.....	34.8	15.4	24.0	17.2	8.6

(c) Population Growth

	% Change	
	1961/1951	1961/1956
Town.....	18.0	3.0
County.....	5.7	4.1
Nova Scotia.....	14.7	6.1

(d) Rural urban ratio

	Rural		Urban	
	1951	1961	1951	1961
Town—No.....	—	—	2,040	2,408
County—No.....	10,107	11,569	4,285	3,639
%.....	70.2	76.1	29.8	23.9
Nova Scotia: %.....	46.3	45.7	53.7	54.3

(e) Origin (1961) (%)

	British Isles	French	Other
Town.....	N.A.	N.A.	N.A.*
County.....	83.3	2.7	5.4 (German)
Nova Scotia.....	71.3	11.9	6.2 (German)

(f) Household Information

	Number Households		Average Number of Persons Per Household		Number Families		Average No. of Persons Per Family		Average Number of Children Per Family	
	1951	1961	1951	1961	1951	1961	1951	1961	1951	1961
Town.....	524	641	3.9	3.6	479	564	3.8	3.7	1.8	1.8
County.....	3,512	3,850	4.0	3.8	3,341	3,519	3.8	3.8	1.8	1.9
Nova Scotia..	149,555	175,341	4.2	4.0	145,127	161,894	3.9	4.0	1.8	2.0

\*N.A.—Not Available

LABOUR FORCE

7. The 1951 census for Shelburne County listed 2,068 male workers in the primary occupation categories. A detailed breakdown for the town of Shelburne from the 1961 census is as follows:

(a) Labour Force

	1951	1961
Male .....	499	572
Female .....	172	253
Total .....	671	825
% Male .....	74.4	69.3
% Female .....	25.6	30.7

(b) Occupational Distribution

	Male	Female	Total Community	
			No.	%
Managerial .....	66	13	79	9.6
Professional and technical .....	38	42	80	9.7
Clerical .....	19	47	66	8.1
Sales .....	19	42	61	7.4
Service and recreation occupations ..	122	83	205	24.8
Transport & Communication occupations .....	31	11	42	5.1
Farmers and farm workers .....	6	—	6	0.7
Fishermen, trappers, loggers and hunters .....	30	—	30	3.6
Miners, quarrymen and related workers .....	—	—	—	—
Craftsmen, production process and related workers .....	169	14	183	22.2
Labourers .....	57	—	57	6.9
Occupations not stated .....	15	1	16	1.9
Total .....	572	253	825	100.0

(c) Industrial Distribution

	Male	Female	Total Community	
			No.	%
Agriculture.....	2	—	2	0.2
Forestry, Fishing and Trapping.....	23	—	23	2.8
Mines, quarries, oil wells.....	1	—	1	0.1
Manufacturing industries.....	137	20	157	19.0
Construction industry.....	61	—	61	7.4
Transportation, communication and other utilities.....	50	16	66	8.0
Trade.....	71	47	118	14.4
Finance, insurance and real estate.....	6	4	10	1.2
Community, business and personal service industries.....	83	146	229	27.8
Public administration and defence.....	124	20	144	17.4
Industry, unspecific or undefined.....	14	—	14	1.7
Total.....	572	253	825	100.0

INCOME STATISTICS

8. The average annual wage in Nova Scotia is considerably lower than the national average. The following statistics show that the annual average wage in Shelburne County is lower than the provincial average:

(a) Total Income of Families 1961							
	Total Families	Under \$1,000	\$1,000- \$1,999	\$2,000- \$2,999	\$3,000- \$3,999	\$4,000- \$4,999	\$5,000- \$5,999
Shelburne Co.....	3,409	338	794	1,028	536	280	166
Nova Scotia.....	146,825	10,409	20,276	24,244	26,017	22,816	15,989
	\$6,000- \$6,999	\$7,000- \$7,999	\$8,000- \$9,999	\$10,000- \$14,000	\$15,000+	Average	
Shelburne Co.....	105	60	41	46	15	2,999	
Nova Scotia.....	9,449	5,904	5,861	3,830	2,030	4,260	

(b) Total Income of Persons not in Families 1961							
	Total	Without Income	Under \$1,000	\$1,000- \$1,499	\$1,500- \$1,999	\$2,000- \$2,499	\$2,500- \$2,999
Shelburne Co.....	1,196	75	678	160	102	80	31
Nova Scotia.....	59,731	5,103	24,295	7,849	4,802	4,569	3,170
	\$3,000- \$3,999	\$4,000- \$4,999	\$5,000- \$5,999	\$6,000- \$7,999	\$8,000- \$9,999	\$10,000+	Average
Shelburne Co.....	53	11	—	—	—	6	1,131
Nova Scotia.....	5,346	2,173	1,094	760	213	357	1,627

(c) Total Income by size for the Non-Farm Population 15 years of age and over by sex 1961									
		Without Income	Total	Under \$500	\$500- \$999	\$1,000- \$1,499	\$1,500- \$1,999	\$2,000- \$2,499	\$2,500- \$2,999
Shelburne Co.....	M	429	4,305	406	752	536	574	700	413
	F	2,443	2,128	787	868	209	99	60	33
Nova Scotia.....	M	18,428	186,399	14,449	22,173	16,156	14,587	17,108	15,575
	F	106,084	102,610	29,130	30,061	12,981	8,743	7,888	4,563
		\$3,000- \$3,499	\$3,500- \$3,999	\$4,000- \$4,999	\$5,000- \$5,999	\$6,000- \$9,999	\$10,000+	Average	
Shelburne Co.....	M	255	176	209	109	130	45	2,220	
	F	38	15	10	9*	—	—	782	
Nova Scotia.....	M	17,920	15,402	23,450	13,045	12,382	4,152	3,188	
	F	3,871	1,748	1,835	836	688	266	1,243	

\* Includes all with Income over \$5,000.00.



NATURAL RESOURCES

9. Mining

There is one active deposit of granite in Shelburne County at Birchtown near Shelburne. This quarry operated by Scotia Granite Quarries Limited produces up to 450 net tons annually.

10. Fisheries

Shelburne County is divided into three fishing districts: District 30 (from the Queens County line to the Jordan River); District 31

(from the Jordan River to Barrington River) and District 32 (from Barrington River to the Yarmouth County line).

Shelburne County, in 1961, had 1,504 fishermen of which 852 were full time (over 10 months) 464 were part time (five to ten months) 188 occasional (under five months).

There were 535 powered fishing craft under ten tons and 323 of the same over ten tons. The following figures were taken from 1964 D.B.S. statistics.

Species	Quantity '000 lbs.	Value \$'000	Species	Quantity '000 lbs.	Value \$'000
Groundfish			Seaweeds		
Cod .....	16,450	849	Irish Moss .....	7,995	144
Haddock .....	14,892	1,009	Other .....	14,764	37
Pollock .....	9,640	327			
Cusk .....	4,888	186	Total .....	22,759	181
Other .....	2,669	346			
Total .....	48,539	2,717	Fish Viscera, Scales		
			Halibut Livers ....	7	—
Pelagic and Estuarial			Others .....	7	—
Herring .....	10,387	163	Total .....	14	
Swordfish .....	3,556	1,095			
Other .....	468	22	Seafish, Total .....	90,591	7,233
Total .....	14,411	1,280	Total Landings .....	..	7,232
Molluscs and Crustaceans			Total Landing as % of N.S. total—18.2		
Lobster .....	3,731	2,553	..Figures not available or applicable		
Scallops .....	1,136	502	—Amounts too small to be expressed.		
Other .....	1	—			
Total .....	4,868	3,055			

11. Forestry

Forest inventories in Nova Scotia have been taken in 1801, 1909 and 1957. These inventories are a useful guide but changes do

occur every year through growth and depletion. The following data is taken from the 1957 survey.

	Acres	%
Productive forest .....	365,628	57.2
Depleted forest .....	5,033	0.8
Non productive land and forest .....	126,315	19.7
Waste land .....	96,043	15.0
Agricultural and other improved land ....	14,746	2.3
Water .....	31,860	5.0
Total Area .....	639,625	100.0

Forest production figures for Shelburne County during the calendar year 1964 are given below.

Sawn Products	Quantity	County Ranking
Lumber: Softwood .....	2,552 m.f.b.m.	15
Hardwood .....	124 m.f.b.m.	
Boxwood .....	3 m.f.b.m.	
Laths .....	732 (thous. pieces)	6
Staves & Headings .....	100 m.f.b.m.	5
Round Products	Quantity	County Ranking
Pulpwood, rough .....	205 cords	18
Poles & Piling .....	9,524 lineal feet	1

MANUFACTURING FIRMS

12. A list of manufacturers in Shelburne County, showing products, is attached at Annex A. With one or two exceptions these are small industries employing less than fifty people. A general slackening in the economy has been evident during 1967. Shelburne Fisheries is not buying fish other than scallops at the present time. A survey of five firms in 1967 showed a decrease in the size of their payroll as follows:

Month	No. of Employees	Payroll
October 1966	146	\$38,500
April 1967	132	33,500
October 1967	107	26,000
December 1967	50	11,500

TRANSPORTATION

13. The Halifax-Yarmouth main highway and C.N.R. railway pass through Shelburne County. Rail distances from Shelburne to provincial outlets are as follows:

To Truro .....	228.4 miles
To Halifax .....	164.4 miles
To Yarmouth .....	85.6 miles
To Digby .....	151.3 miles

14. The C.N.R. provides passenger service three times weekly on alternate days east and west. Way freight is provided by train daily except Sunday going east and by truck on an "as required" basis going west.

15. Truck transport to Digby and thence by C.P.R. ferry, to Saint John, New Brunswick, and points west is provided daily each way. The distance from Shelburne to Digby is 140 miles approximately. Truck transport to Yarmouth and thence to Bar Harbour, Maine and U.S. points via M.V. "Bluenose" is one way daily excepting summer months when the fre-

quency becomes daily each way. The distance from Shelburne to Yarmouth is 76 miles. The highway distance from Lockeport to Halifax is approximately 152 miles. There is also a non-scheduled truck transport service to Halifax.

16. The nearest airport is at Yarmouth 76 miles distant. The frequency of service is two flights daily to U.S. points. The distance to Halifax Airport is somewhat greater, but provides considerably more scheduled flights to the U.S., Central Canada and flights connecting with overseas runs.

17. Shelburne Harbour is land-locked, deep and commodious and is much used by fishing craft and coasters sheltering from bad weather. There are five privately owned wharves in the port of varying depths ranging from 12 to 15½ feet alongside at low tide. These wharves are used for general freight, fishing and fitting out vessels. The Government wharf to the south of the private wharves has a length of 400 feet and a depth alongside of 32 feet. It is equipped with railroad tracks, water main, electric light, diesel oil pipe line and is easy of access to large steamers. Channel Depth: A draft of 36 feet could be taken to or from the government pier. Tides rise 7½ feet during springs and 6 feet during neaps. Anchorage: The Harbour is four miles long with safe anchorage almost anywhere. Navigation is open all year except in extremely severe winters.

EFFECT OF FREIGHT RATE INCREASES

18. All businesses are directly affected by the September 5, 1967 increase in non-carload freight rate. The Board of Trade is deeply concerned about the effects which these substantially increased costs will have on the local economy. The cost of living which is already high will be further increased and the economic growth of the region will be adversely affected.

19. A sampling of local business firms revealed general increases in cost of moving goods as shown in the table at Annex B. These range from eleven cents a hundred-weight to forty-two cents a hundredweight for general merchandise and show an increase of twenty-seven per cent a hundred-weight for granite shipments.

20. There is general agreement amongst merchants that increases in their operating costs must be passed on to the consumer. In Shelburne, as has been pointed out earlier, this means that people who have been faced with the problem of stretching low incomes to meet already high living costs will have a further reduction in their purchasing power.

#### COMMENT

21. A detailed examination of the above information will confirm that the economy of Shelburne County is marginal. People have become accustomed to low incomes and for the older inhabitant this has become an established fact to be accepted as part of their general philosophy or way of life. Historically, the inhabitants always have been self-sufficient to the point that even during the depression years there were few people looking for relief. There have not been major variations in the economy of the region either in terms of a "boom" expansion or a serious recession below the current marginal standard.

22. The natural result of low wages, high costs and a consequent low standard of living has been that the young people do not remain but migrate to other parts of Canada or to the United States. This in turn restricts development of the natural assets and resources of the region.

23. It is also evident that the economy of the region is closely related to transportation and communication policies of the federal government. The possibility of an expanded industrial base in the local community would be greatly enhanced by improved services in the way of harbour development, sea transportation and air transport facilities.

24. The major threat arising from the present freight rate problem is not only further growth in this area will be inhibited but also already established firms may be forced to

close. Since a great proportion of goods moved both in and out of the area involves less than carload lots the problem is universal throughout the county. In view of the narrow commercial base the effect of one single firm opening or closing is of far greater significance than would be the case in the more highly developed and industrialized regions of Canada.

25. Truck transport has not been found to be a satisfactory alternative to use of rail service. There are delays in shipments which offset the comparative cost advantage as reflected in the experience of one business man who received a shipment of 1,157 pounds via C.N. freight at a cost of \$22.10; the same product received by truck transport cost \$22.20 or ten cents more for 2,612 pounds or more than twice the weight. Traffic is being and will be however diverted from rail service to highway carriers. The owner of one small firm already has adopted as a matter of policy, "No shipments by C.N.R. unless absolutely necessary".

#### RECOMMENDATIONS

26. We urge prompt restoration of LCL rates to their former levels. Studies should be undertaken to assist isolated areas such as Shelburne County to attain the standard of living now enjoyed by Canadians in the affluent areas of Canada. Cost of goods cannot be lowered unless there is a reduction in transportation costs.

27. We further recommend that studies be undertaken to determine the needs of Western Nova Scotia insofar as major transportation facilities are concerned. The proposal to provide an additional ferry service between Shelburne and Gloucester, Massachusetts should be reactivated as a matter of priority. Feasibility studies should be undertaken also to determine whether a major airport should not be provided in a central area such as Indian Fields to act as a stimulus to development of the entire western region of our province.

Respectfully submitted,  
Dave Thomas,  
President,  
Shelburne and District  
Board of Trade.



## BUSINESS FIRMS—SHELBURNE COUNTY

ANNEX A

*Firms*

Atkinson, Arthur Leighton,  
Newellton

Atwood, Ralph  
Oak Park

Blades, Alvah V.  
Newellton

Blades, G. K. & Son Limited  
Gunning Cove

Blaine, Malcolm  
Port La Tour

Bower, John C.  
Lower Ohio

Cape Ann Seafoods Ltd.  
Port La Tour

Chetwynd, Eldridge William  
Baccaro

Crowell, Edward C.  
Upper Port La Tour

Doane, Charles B.  
Ingomar

Doane, Fred G.  
Ingomar

Fish Reduction Ltd.  
Wood Harbour

Greenwood, C. B. Ltd.  
Shag Harbour

Greenwood, Joseph  
Shag Harbour

Halliday, Henry A.  
Shag Harbour

Hopkins, Cleveland Aubrey  
Bear Point

Hopkins, Clifford  
Bear Point

Hopkins & Hopkins  
Baccaro

Kendrick, Edna V. (Mrs.)  
Shag Harbour

Kenny Bros.  
Atwood's Brook

Larkin & Shand  
Shag Harbour

Mahaney, Donald  
Barrington Passage

Marden, Gerlad  
Wood Harbour

Marine Foams Ltd.  
Wood Harbour

Newell, G. M. Limited  
Newellton

*Products*

Boneless, dry-salted and wet-pickled fish

Planing mill

Boneless and wet-pickled fish

Boneless, frozen and wet-pickled fish

Boneless fish

Concrete building blocks; pre-cast concrete shapes—lawn ornaments, septic tanks, sewer pipe and culverts, well casings

Filletted, boneless and wet-pickled fish; frozen filets and blocks

Boneless and wet-pickled fish

Boneless, frozen, marinated and wet-pickled fish

Wet-pickled fish

Wet-pickled fish

Fish body oil and meal

Marinated fish

Boatbuilding

Boneless and wet-pickled fish

Boneless fish

Boneless, dry-salted and wet-pickled fish

Boneless and wet-pickled fish; fish liver oils

Boneless and wet-pickled fish

Boneless fish

Boatbuilding and repair

Boatbuilding

Boatbuilding

Plastic buoys

Boneless and wet-pickled fish

*Firms*

Newell Bros.  
Newellton

Nickerson, John E.  
West Head

Nickerson, St. Clair  
Central Wood Harbour

Olsson, A. V. Trading Co. Inc.  
Upper Port La Tour

Quinlan, Dayson T.  
Stoney Island

Wood Harbour Fisheries  
Wood Harbour

Young, Harold R.  
Atwoods Brook

Atkinson, Ernest  
Clark's Harbour

Atkinson & Bower  
Shelburne

Atkinson, Herbert  
Clark's Harbour

Blades, Charles McKay  
Clark's Harbour

Cape Lobsters Ltd.  
Clark's Harbour

Clark's Harbour Fisheries Ltd.  
Clark's Harbour

Cox, Harley S., & Sons  
Shelburne

Cox, John J.  
Shelburne

Cunningham, F. E. & Sons Ltd.  
Clark's Harbour

Dauphinee, W. T., Ltd.  
Shelburne

Kenney & Ross Ltd.  
Clark's Harbour

Lockeport Division, Nat. Sea Products Ltd.  
Lockeport

Nickerson, Austin E.

Nickerson, Charles  
Clark's Harbour

Nickerson, Clarendon Seth  
Clark's Harbour

Nickerson, Clifton, Edward & Douglas  
Clark's Harbour

Nickerson, Dexter  
Clark's Harbour

Nickerson, Edward C.  
Clark's Harbour

*Products*

Boneless and wet-pickled fish

Boneless and wet-pickled fish

Boatbuilding

Marinated and wet-pickled fish

Boneless and wet-pickled fish

Wet-pickled fish

Boneless fish

Boatbuilding

Marine gasoline engines; marine accessories  
machine work

Boat repairs

Fresh, dry-salted and wet-pickled fish;  
lobsters

Fresh, boneless, dry-salted and wet-pickled  
fish; lobsters

Fresh, frozen dry-salted, boneless smoked  
and wet-pickled fish; lobsters; fish body  
and liver oils

Boatbuilding, motor boats; fishermen's  
supplies

Sawn lumber

Fresh, boneless, dry-salted, frozen and wet-  
pickled fish, lobsters; fish liver oils

Granite building material; monuments

Canned and dry-salted fish; fish body meal  
and fish body oils; glue

Boneless, dry-salted, fresh and frozen fish;  
also smoked and wet-pickled fish; glue;  
fish body oils and meals; live lobsters

Fresh, boneless, dry-salted and wet-pickled  
fish; lobsters

Fresh, boneless, dry-salted and wet-pickled  
fish; lobsters

Fresh, frozen, boneless, dry-salted and wet-  
pickled fish; lobsters

Boneless fish

Boneless fish

Fresh, boneless and wet-pickled fish;  
lobsters

*Firms*

- Nickerson, Ethern G.  
Clark's Harbour
- Nickerson, Jack H. and Hilton E.  
Clark's Harbour
- Pierce, Aubrey  
Lockeport
- Pierce Fisheries Ltd.  
Shelburne
- Shelburne Fisheries Ltd.  
Shelburne
- Shelburne Industries  
Shelburne
- Shelburne Woodworkers Ltd.  
Shelburne
- Smith, Ashley  
Clark's Harbour
- South Shore Fisheries Ltd.  
Lockeport
- Stoddard, Bernard Ronald  
Clark's Harbour
- Quinlan, Lionel L.  
McGray's P.O.
- Quinlan & Company  
Stoney Island
- Scotia Marine Products Limited  
Lower Wood Harbour
- Scott, Thomas  
Riverhead
- Shand, Ronald St. Clair  
Shag Harbour
- Shand, William  
R.R. 1, Shag Harbour
- Smith, J. C.  
Dock St.
- Smith, Oscar E.  
Shag Harbour
- Snow, A.  
Middle Ohio
- Stoddard, Clifton Ralph  
Sable River
- Stoddard, James William  
East Baccaro
- Stoney Island Fisheries  
Stoney Island
- Swaine, George R.  
Northeast Harbour
- Swim, Giffin, Fisheries  
Osborne Harbour
- Thorburn Bros.  
Sandy Point
- Waybret, Howard Ashton  
Shag Harbour

*Products*

- Fresh, boneless, dry-salted and wet-pickled fish; lobsters
- Boneless, wet-salted and wet-pickled fish
- Boat repairs
- Fresh, boneless, dry-salted, marinated, wet-pickled fish; lobsters
- Fresh, frozen, smoked and wet-pickled fish; lobsters
- Planing mill; millwork; sawn lumber; wooden ships; sheathing
- Machine repairs
- Fresh, frozen, boneless, dry-salted smoked and wet-pickled fish; lobsters
- Boneless fish
- Boneless and wet-pickled fish
- Pickled, green-salted, dry-salted and boneless fish
- Socium alginate
- Sawmill; laths
- Boneless fish
- Boneless fish
- Barrels, tubs and kegs
- Boneless and wet-pickled fish
- Laths
- Marinated and wet-pickled fish; fish liver oils
- Boneless, dry-salted and wet-pickled fish
- Dry-salted, wet-pickled and boneless fish
- Boatbuilding
- Dry-salted and wet-pickled fish
- Dry-salted and wet-pickled fish
- Boneless and wet-pickled fish



Firms

South Shore Gazette Ltd.  
Water Street, Shelburne  
Swim Bros. Ltd.  
Lockeport  
Tasty Bakers Ltd.  
Water Street, Shelburne  
Ven-Rez Products Ltd.  
Shelburne

Products

Commercial printing, periodicals;  
newspaper—"Coastguard"  
Fresh, frozen, smoked and wet-pickled fish;  
lobsters  
Bread and other bakery products  
  
Furniture and fixtures for churches, schools  
etc.; desks

ANNEX B

COMPARATIVE OLD AND NEW FREIGHT RATES SELECTED SHELburnE FIRMS  
FURNITURE AND APPLIANCES

From	Date and Old Rate	Date New Rate	Item
Quebec.....	Oct. 21/66 \$2.00	Nov. 7/67 \$2.42	Crib complete
Quebec.....	Aug. 10/66 2.28	Jan. 10/68 2.42	Bedroom suite
Quebec.....	Nov. 11/66 2.98	Nov. 20/67 3.16	Bedroom suite
Quebec.....	Nov. 25/66 2.28	Jul. 5/67 2.42	Bedroom suite
Halifax.....	Jan. 7/67 1.38	Jul. 20/67 1.49	Electric washer
Quebec.....	Jun. 15/66 4.47	Jul. 7/67 4.74	Tables
Stellarton.....	Jun. 24/66 2.46	May 25/67 2.63	Mattresses spring filled
	1.64	1.75	Mattresses common
Halifax.....	Jan. 16/67 4.69 (340 lbs)	Oct. 5/67 9.90 (330 lbs)	Appliances (1.5¢ lb to 3¢ lb)
	Jan. 10/67 6.08 (450 lbs)	Oct. 17/67 11.40 (380 lbs)	Appliances (1.4¢ lb to 3¢ lb)
	Jan. 10/67 2.03 (150 lbs)	Dec. 7/67 4.85 (170 lbs)	Appliances (1.4¢ lb to 2.9¢ lb)
New Glasgow.....	Jan. 11/67 21.56 (640 lbs)	Sept. 28/67 20.05 (420 lbs)	Mattresses (3.4¢ lb to 4.8¢ lb)
Montreal.....	Feb. 28/67 5.60 (188 lbs)	Nov. 8/67 12.12 (140 lbs)	Furniture (3¢ lb to 8.7¢ lb)
	Jan. 17/67 4.30 ( 94 lbs)	Sept. 28/67 5.95 ( 90 lbs)	Furniture (4.6¢ lb to 6.6¢ lb)
Toronto.....	Feb. 24/67 8.67 (200 lbs)	Nov. 7/67 12.89 (150 lbs)	Furniture (4.3¢ lb to 8.6¢ lb)
Halifax.....	Mar. 30/67 2.25 ( 16 lbs)	Dec. 19/67 3.00 ( 20 lbs)	Cartons Express
	Apr. 10/67 1.41 ( 50 lbs)	Dec. 21/67 3.70 ( 30 lbs)	Cartons Freight

CARS

Model	Old Cost	New Cost
Belvedere 11 4DR Sedan.....	\$112.00	\$113.00
Chrysler Newport 4DR Sedan.....	128.00	155.00
Ply. Fury 111 4DR Sedan.....	129.00	134.00
Valiant Signet 4DR Sedan.....	110.00	99.00
Valiant 100 4DR Sedan.....	97.00	99.00

Granite

Due to the cancellation of the special L.C.L. rates for granite to various centers in Ontario on September 5, 1967, the rate is now twenty-seven per cent higher per one hundred pounds.

Competition being so keen, and granite very dense or heavy, this places us at a serious disadvantage in competing in the Ontario markets, resulting in less business and a cut back in production.

Also most of our supplies come from Ontario and Quebec. Thus the increase in freight rates has raised our production costs.

These things combined are making it impossible to use outside markets.

Also a special L.C.L. rate to Dartmouth has been cancelled, making an increase from 69¢ per hundred lbs. to \$1.06. With severe competition in this area we are again at a disadvantage because of the increase.

Shipments from Van Rez Furniture

To	Weight	Old Rate	New Rate
Saint John, N.B.	4760	1.72	2.00
Fredericton, N.B.	1680	2.38	2.12
Bathurst, N.B.	1400	2.25	2.01
	1080	1.75	1.78
Antigonish, N.S.	1552	1.75	1.78
Port Hood, N.S.	3445	1.56	1.78
Freetown, P.E.I.	350	2.17	2.01

## APPENDIX A-56

## TRANSPORTATION BRIEF, PREPARED JOINTLY BY THE ANNAPOLIS ROYAL TOWN COUNCIL AND THE TOWN COUNCIL AND THE ANNAPOLIS DISTRICT BOARD OF TRADE.

Nova Scotians, with no less fervor than Canadians of other provinces, have recently celebrated their country's Centennial. A review, however, of what Confederation has meant to Nova Scotia, strikingly reveals the fact that the reorienting of north-south trade at the time of Confederation brought economic retrogression to many parts of the province. Nova Scotia's geographical location and proximity to the north-eastern United States had provided ideal conditions for maritime trade which flourished along with the shipbuilding and fishing industries. However, post Confederation restricted trade with the United States, created the more expensive alternative east-west trade within Confederation.

Economic retrogression that followed Confederation forced, and continues to force, a large number of Nova Scotians to seek employment outside the province. The federal and provincial governments recognize this problem and are attempting to correct this situation through such government agencies as the Atlantic Development Board, Agricultural Rehabilitation and Development Act, and the Industrial Estates. Very little, however, has been accomplished to date in the Annapolis-Yarmouth area. Western Nova Scotia remains an area with a minimum of industry, an area handicapped by most inadequate transportation facilities.

## BAY OF FUNDY FERRY SERVICE:

Under the present Bay of Fundy ferry service, truck and transport drivers are denied the opportunity of having their vehicles ferried across the Bay of Fundy to Saint John, N.B., a distance of approximately forty miles, and are forced to take the very long trip of approximately three hundred and seventy-eight miles over inadequate highways to Amherst and Moncton in order to proceed to Saint John.

We urge that the contemplated ferry service between Nova Scotia and New Brunswick be such as to permit adequate movement of trucks and transports over Bay of

Fundy waters. Secondly, we urge that a study be made of hovercraft and its possibilities for rapid transit over the Bay of Fundy.

Cognizant of the fact that the United States has taken the lead in deep-sea containerized shipping, we urge that an intensive study be made of the Digby and Victoria Beach waters for use as future deep-sea ports since these waters offer great possibilities for the movement of large freighters. The entrance to the Annapolis Basin is approximately one mile wide and meets super-port requirements in that a berthing depth of one hundred feet is possible at low tide. The basin, except for the entrance, is landlocked, protected from high winds by the North and South mountains, is free of ice, has a square mile of turning space and requires no dredging.

## HIGHWAYS

We urge that consideration be given the following:

1. A study of Highway 1 west from Middleton to Yarmouth to determine present and future needs, its suitability for industrial traffic requirements, its adequacy for the tourist traffic including the anticipated tourist traffic to the new National Kejimikujik Park.

2. A study of the old Halifax-Annapolis Post Road and the advantages in using this same route to build a modern all-weather through highway from Halifax to connect with the Digby-Saint John Ferry and serve the entire western area of the province.

## WHARVES:

We urge that the Standing Committee on Transport and Communications examine the need for wharves throughout Annapolis County, particularly in Annapolis Royal and at Parker's Cove.

The Annapolis Royal harbour, used by shipping interests for over three hundred and fifty years, has many advantages for year-round shipping. It is ice-free, requires no ice breakers, is protected on the north and south



from high winds by mountains and is situated approximately fifteen miles from the Bay of Fundy. The one remaining wharf is privately owned and, though very useful in emergency situations, it is considered entirely inadequate in its present state for today's general freight handling. Exports from Annapolis Royal in 1967 included approximately three million feet of sawn lumber produced in the town, plus twelve thousand cords of pulpwood produced in the Annapolis district. Nine ocean-going ships used the wharf during 1967. The total value of wood exports amounted to

approximately \$1,000,000.00. Much needed, improved wharf facilities would encourage many exports including fruit and forest products as well as imports such as oil, grain bulk cement, fertilizers, etc.

Western Nova Scotia's geographical location suggests great possibilities for trade with the north-eastern United States, New Brunswick, Quebec and Ontario, but only when adequate ferry service, good highways and wharves are made available, can such possibilities be realized.

## APPENDIX A-57

SUBMISSION TO  
STANDING COMMITTEE ON  
TRANSPORT AND COMMUNICATION  
BY  
CLARE CHAMBER OF COMMERCE  
CHURCH POINT, N.S.

## WATER TRANSPORTATION:

Water transportation in southwestern Nova Scotia is outmoded; not only has it not kept pace with normal improvements, but facilities are inferior to those available some years ago. There are no docking facilities for freighters along the Clare coastline to handle lumber, pulp wood or other products, which would be a more economical means of shipment.

The delay in improving ferry service between Digby, Nova Scotia, and St. John, New Brunswick, is a constant source of concern and hardship to shippers and of inconvenience to passengers. Ferry service between these points should accommodate trucks, vans, railway freight cars and offer piggyback facilities. Loading and unloading at the Digby-St. John ferry causes breakage and spoilage, forcing shippers to abandon this means of transport. The quality of fish, in particular, very often depends on minimum handling and on the amount of time required to reach the market. There is no direct shipment via the only railway serving Digby County (Canadian Pacific), and the required transfer to C.N.R. facilities not only increases the cost but also is a cause of considerable delay.

Summer time traffic warrants additional ferrying facilities to Bar Harbour. In this way additional space would be available for commercial trucking to the northeastern United States region. With one ferry during the summer, it is very difficult to obtain proper space for such commercial trucking.

## FREIGHT RATES:

It has been demonstrated that inequalities in freight rates, even within the province, produce unfair competition. The Clare Chamber of Commerce is concerned over the

freight rate structure. However, it is understood that your Committee has received documented submissions to this effect.

## HIGHWAYS:

Although highway facilities for southwestern Nova Scotia is the responsibility of the government of the Province of Nova Scotia, the Clare Chamber of Commerce finds that the closing of highways to heavy commercial and industrial trucking during the spring thaw, for a period of four to six weeks, places a severe handicap on the industries in the southwestern area of Nova Scotia. This is especially true for the fishing industry of Clare.

The Clare Chamber of Commerce therefore urges the House of Commons Standing Committee on Transport and Communications to present to the House of Commons a resolution for making financial grants possible to provincial governments. With such grants the primary road system of our province could be improved by the construction of an all-weather system of highways leading to different areas of southwestern Nova Scotia and offering a more rapid connection to the Trans-Canada Highway System. The saving of time and money by such a highway system would enable industries in this area to be more competitive.

## AIRPORT:

The Clare Chamber of Commerce recommends that a comprehensive study be made by the federal government to find a suitable site for an all-weather regional airport. The present airport serving southwestern Nova Scotia, because of frequent climatic conditions, is not always available for scheduled

air flights. On many occasions flights scheduled to land at the Yarmouth airport have been required to reroute the landing to an airport two hundred miles away or in the case of chartered flights to return to the point of origin. This has caused much inconvenience and loss of time and money to the customers as well as the airlines.

In studying the question of a new location for an airport, the Clare Chamber of Commerce believes the following factors should be considered in determining a suitable site for this region:

- (a) A location far enough inland to minimize the effects of coastal fogs.
- (b) A site large enough so as to expand with the regional requirements.
- (c) A site so located as to best serve the regional areas of Yarmouth, Digby and Shelburne.
- (d) A site that could be easily accessible to any all-weather primary highway system to be constructed in this area.
- (e) The airport should be designed for the utmost utilization of industrial and commercial air freight transportation.

**CAUSEWAY:** (Parrsboro-Kentville connection)

The Clare Chamber of Commerce believes that the southwestern area of Nova Scotia would greatly benefit by the construction of a causeway connecting Cape Blomidon (Kentville area) with Parrsboro. Such a connection would reduce highway mileage between southwestern Nova Scotia and New Brunswick by approximately 140 miles.

The types of construction should be considered in evaluating such a crossing, as:

- (a) A causeway with a high level bridge to allow free flow of seagoing traffic

between Bay of Fundy and Minas Basin area

or

- (b) A causeway equipped with lock facilities for seagoing traffic. This type of a system could possibly be constructed so as to utilize the electrical power potentialities of the extreme tides of the Minas Basin. The additional power would be very useful to the industrial development of this region of Nova Scotia.

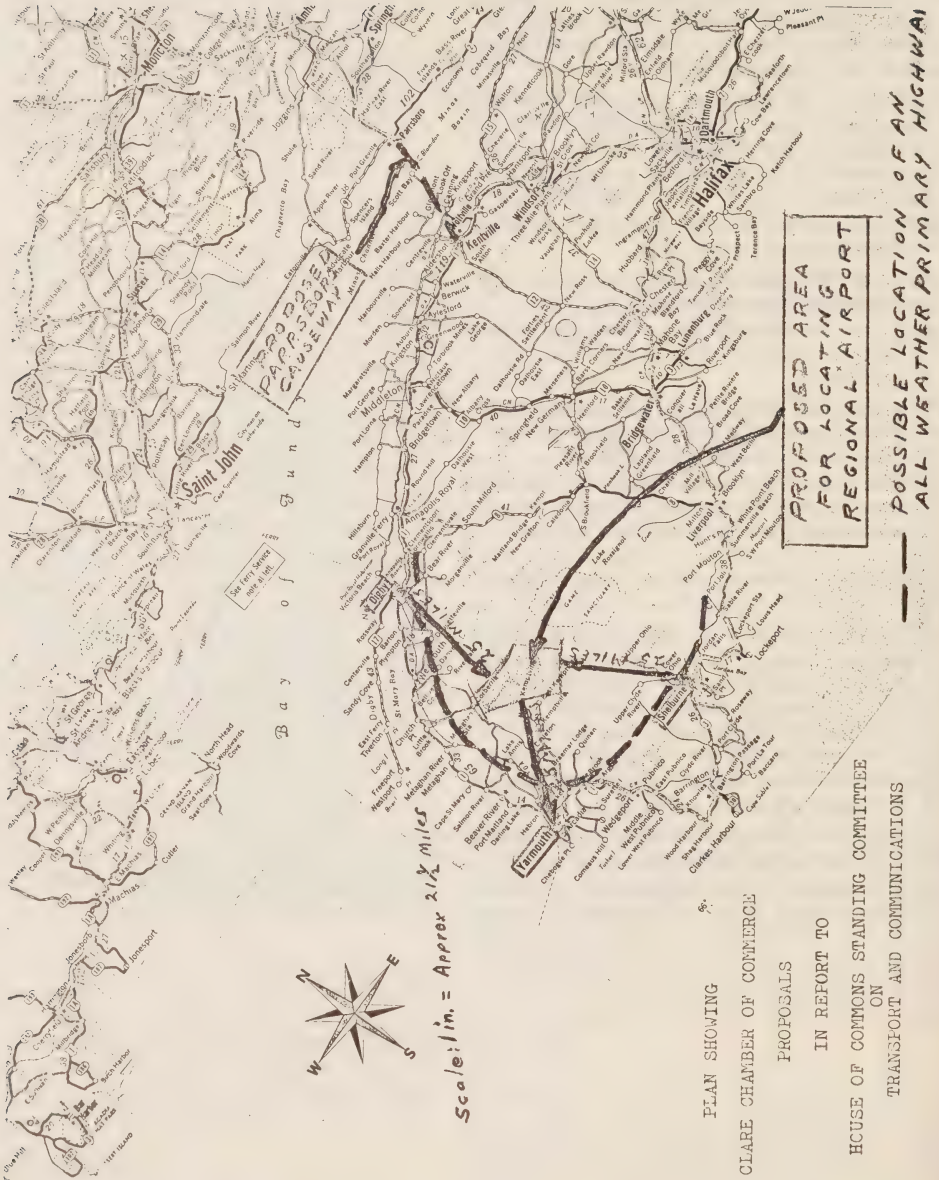
## CONCLUSION:

Finally, the Clare Chamber of Commerce urges that the House of Commons Standing Committee of Transportation and Communications present a resolution to the members of the House of Commons, proposing that a substantial appropriation of money be made available to carry out a comprehensive transportation study for the Maritime Provinces. From such a study a "Master Plan" of transportation requirements for the Maritime Provinces could evolve and sound recommendations could be made for its implementation.

THIS "MASTER PLAN" SHOULD NOT BE PREPARED FOR THE IMMEDIATE FUTURE ONLY. IT SHOULD BE LONG RANGE IN SCOPE TO COVER TWO OR THREE DECADES OF THE MARITIME PROVINCES' FUTURE AND, ALSO, WITH SUFFICIENT FLEXIBILITY TO MEET ANY CHANGING CONDITIONS THAT MAY OCCUR DURING THAT PERIOD.

IT IS OUR SINCERE BELIEF THAT THIS WAY, AND ONLY THIS WAY, THE TRANSPORTATION QUESTION OF THE MARITIME PROVINCES CAN BE FOCUSED IN ITS PROPER PERSPECTIVE.





## APPENDIX A-58

## SUBMISSION TO THE STANDING COMMITTEE ON TRANSPORT AND COMMUNICATIONS BY THE CITY OF SAINT JOHN WITH RESPECT TO THE MARITIME FREIGHT RATES ACT AND TRANSPORTATION PROBLEMS IN THE ATLANTIC PROVINCES

## INTRODUCTION

The City of Saint John welcomes the opportunity to appear before the Standing Committee on Transport and Communications and submit its views on certain aspects of transportation relating to the Atlantic Provinces.

Since the time for preparation of submissions was relatively short it is our intention to examine some of the serious problems facing this area, and to suggest, in general terms, certain solutions.

The terms of reference of the Committee are to examine the effectiveness of the Maritime Freight Rates Act with power to study and make recommendations concerning

(a) changes or alterations which may now be desirable in the Maritime Freight Rates Act; and

(b) alternative methods of assisting transportation in the Atlantic Provinces either in addition to the Maritime Freight Rates Act or in substitution therefor in whole or in part with the purpose that maximum benefits be obtained by the Atlantic Provinces from the expenditure being made.

It is significant that the terms of reference are not restricted solely to the study of the Maritime Freight Rates Act but encompass all aspects of transportation.

Prior, and subsequent, to Confederation the transportation issue has been of prime concern as it affects the economy and standard of living of the Atlantic Provinces. At the time of Confederation the problem was of sufficient paramountcy to require a commitment by the Fathers of Confederation to construct the Intercolonial Railway as an inducement to the Atlantic Provinces to join in Confederation. The effect of this commitment was expressed

by the Honourable George Brown (Halifax, September 10, 1864) in the following words:

"Union of all the provinces would break down all trade barriers between us, and throw open at once to all a combined market of four millions of people. You in the east would send us your fish and your coals and your West India produce, while we send you in return the flour and the grain and the meats you now buy in Boston and New York."

In joining Confederation the Atlantic Provinces irrevocably relinquished their rights to trade in the competitive market in the United States. The construction of the Intercolonial Railway was necessary not only to offset trade in this market but to effect a "political union for the colonies".

For these reasons transportation in the Atlantic area has not been nor was it intended to be, profit producing.

## MARITIME FREIGHT RATES ACT

The Maritime Freight Rates Act came into force on July 1, 1927 as a result of certain conclusions arrived at by the Duncan Commission. The Duncan Commission found that up to 1912 Maritime trade and business was able to bear the rates prevailing at that time. Subsequent to that date the Commission further found that the railway rates in the Maritimes increased disproportionately to increases that had occurred in other parts of Canada. This observation by the Commission resulted in the following conclusion:

"That the rate structure as it has been altered since 1912 has placed upon the trade and commerce of the Maritime Provinces (a) a burden which, as we have read the pronouncements and obligations undertaken at Confederation, it was never intended it should bear, and (b) a burden which is, in fact, responsible in very considerable measure for depressing

abnormally in the Maritimes today business and enterprise which had originated and developed before 1912 on the basis and faith of the rate structure as it then stood."

Briefly, the Maritime Freight Rates Act provides a reduction in rail rates of 20 per cent on traffic moving within the "select territory" and a reduction of 30 per cent on traffic moving westbound from the "select territory" to other parts of Canada. The 20 per cent reduction applies to the total rate whereas the 30 per cent reduction applies only to that portion of the rate attributable to the haul within "select territory" or, in effect, as far as Levis, Quebec on the C.N.R. and Boundary, Quebec on the C.P.R. The reductions do not apply to the following:

- (a) traffic to or from the United States
- (b) eastbound traffic originating west of Boundary, Levis and Diamond, Quebec
- (c) import traffic from overseas points
- (d) export traffic or traffic for furtherance by water through ports west or north of Boundary, Levis and Diamond, Quebec
- (e) passenger or express movements.

A further significant feature of the Act is that reduced rates are deemed to be statutory rates and not based on any principal of fair return to the railway for service rendered in the carriage of traffic. Accordingly, the Board is not permitted to "approve nor allow any tariffs that may destroy or prejudicially affect such advantage in favour of persons or industries located elsewhere than in such select territory".

#### EFFECT OF MARITIME FREIGHT RATES ACT

Although the Act as reflecting government policy is intended to provide lower rates for the maritime Provinces in comparison to other parts of Canada, the introduction of competition to the railways by other forms of transport has to a large extent destroyed the advantages provided in the Act.

The trucking industry on the national level accounts for a significant percentage of commodity transportation. This has resulted in a smaller volume of traffic being carried by the railways yet railway costs have continued to increase. Consequently, these costs

are required to be borne by a lesser number of users.

#### EFFECT OF NATIONAL TRANSPORTATION ACT

The National Transportation Act (Chapter 69, 14-16 Elizabeth II, 1967) has defined the Government's policy with respect to transportation system as follows:

- "1. It is hereby declared that an economic, efficient and adequate transportation system making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation and to maintain the economic well-being and growth of Canada, and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that having due regard to national policy and to legal and constitutional requirements.
- (a) regulation of all modes of transport will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense;
- (c) each mode of transport, as far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty; and
- (d) each mode of transport, so far as practicable, carries traffic to or from any point in Canada under tolls and conditions that do not constitute
  - (i) an unfair disadvantage in respect of any such traffic beyond that disadvantage inherent in the location or volume of the traffic, the scale of operation connected therewith or the type of traffic or service involved, or
  - (ii) an undue obstacle to the interchange of commodities between points in Canada or unreasonable discouragement to the development of primary or secondary industries or to export trade in or from any region of Canada or to the



movement of commodities through Canadian ports;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation."

Since the national policy is related to total costs in order to maintain "economic well-being" the Maritimes are still in the position of being required to pay more to transport their goods to the markets in central and western Canada because of the greater distances from those markets. For this reason the national policy therefore does not take into account the geographical disadvantages of the Maritimes.

It is important to note that Section 1 of the National Transportation Act refers to a situation where "all modes of transport are able to compete".

In order to give effect to this policy it therefore becomes necessary to re-examine the Maritime Freight Rates Act and apply the subsidies contained therein to all forms of transport.

The report of the Economist Intelligence Unit Limited relating to the Atlantic Provinces transportation study (January 1967) recommended that the extension of the subsidy on westbound movements to all types of licensed public common carriers would remove the present distortion as between competing modes of transportation.

### EASTERN RATES

Section 329 of the Railway Act, which was amended by Section 50 of the National Transportation Act, provides for the movement of grain and flour to eastern ports from inland points (the latter being defined as railway points west of Prescott) at freight rates established some years ago. The purpose of the section is to encourage "The continued use of the Eastern ports for the export of grain and flour", (the Eastern ports being any of the ports of Halifax, Saint John, Montreal and ports on the St. Lawrence River to the west of Montreal).

Under this scheme the Governor-in-Council is authorized to pay to a railway company that carries flour or grain to eastern ports at eastern rates, an amount equal to the difference between the amount received by the

company and the rates that would normally have been charged for the carriage of those goods.

The eastern ports, particularly the port of Saint John, have the facilities for transporting, shipping and loading all types of commodities.

It is submitted that in order to make greater use of our existing port facilities and to effectively assist transportation in the Atlantic Provinces, the provisions of Section 329 of the Railway Act be enlarged so that Eastern rates be applied to a variety of commodities in addition to grain and flour. This suggestion is based on the assumption that no competitive mode of transport to the eastern ports is available for these other commodities.

### MARITIME PORT FACILITIES

It is evident in the National Transportation Act that shippers throughout Canada are encouraged to use the facilities at the ports of Saint John and Halifax. However, other areas of the Maritime Provinces are being provided with duplicate port facilities which have the direct effect of lessening the use of these two major ports.

It is suggested that some measure of control be imposed upon the planning and establishment of harbour facilities in the Maritimes.

The creation of a Maritime Harbour Control Board, given adequate powers, would receive applications for new harbour facilities. The Board would take into consideration the available facilities at the ports of Saint John and Halifax whether they are being used to capacity, and what efficiencies may be effected by the establishment of new harbours.

It is obvious that planning of ports in this way would achieve economies and generally upgrade the efficiency of transportation in the Maritime Provinces.

### CONCLUSION

The City of Saint John subscribes and supports the views and recommendations presented in the Briefs of the Saint John Port and Industrial Development Commission and the Saint John Board of Trade and particularly their comments on the modernization of port facilities and expansion of highway systems.

The submission of the City of Saint John may be summarized as follows:

(1) that the Maritime Freight Rates Act and the subsidies provided therein for railways be applied to all forms of transport;

(2) that the Eastern rates under the Railway Act for shipments to eastern ports be enlarged and made to apply to a variety of commodities in addition to grain and flour; and

(3) that a Maritime Harbour Control Board be established for the purpose of proper planning of new harbour facilities.

DATED at Saint John the 14th day of February A.D. 1968.

Submitted on behalf of the  
City of Saint John by

J. A. MacDougall, M.D.,  
MAYOR

## APPENDIX A-59

## BRIEF TO

THE HOUSE OF COMMONS  
STANDING COMMITTEE ON  
TRANSPORTATION AND  
COMMUNICATIONS

From the Saint John Port & Industrial Development Commission, Saint John, New Brunswick

Mr. Chairman and Gentlemen:

The Saint-John Port and Industrial Development Commission wishes to express its thanks for the opportunity of presenting this brief and appearing before your committee during the visit of your board to Saint John.

This Commission, created by an act of the legislature, is a fully corporate body established in 1961, "to improve the maintenance, equipment, administration, development and prosperity of the Port and the industrial development and prosperity of the City".

Therefore, our interest in presenting this brief is primarily related to much needed modernization of port facilities and the total upgrading of all forms of surface transportation in order that this infrastructure may more efficiently serve the Port in today's rapidly changing transportation technology.

These needs are also obviously interrelated to the expansion of industrial and economic growth within the community.

At the outset however, this Commission wishes to go on record that we irrevocably support the principal of the growth center concept for regional development as envisaged in those submissions and reports relating to economic growth in the Atlantic Region by agencies including the Economic Council of Canada and the Atlantic Provinces Economic Council. In addition, the Atlantic Provinces Transportation Study of 1967—commissioned by the Federal Government—and carried out by The Economist Intelligence Unit of London, England, said that "Public Policy should be particularly concerned to encourage the growth and development of such (Growth) centers and thus hope

to stimulate the development of the various external economies of scale which occur in prosperous and developing areas".

In previous submissions made by the Saint John Port and Industrial Development Commission to the Federal Government and the Atlantic Development Board, we have consistently advocated the importance of the growth center concept in the encouragement that should be given to both new industry and the addition of modern transportation facilities.

In spite of this, the community of Metropolitan Saint John continues to be handicapped by the failure of the Federal Government to provide first, those incentives to industry under the Designated Area Formula and secondly, there has been a failure on the part of those federal agencies concerned to provide the vital and modern infrastructure that are necessary if the Port of Saint John—one of Canada's National Ports—is to maintain its competitive position in world trade.

Over recent months, the Saint John Port and Industrial Development Commission has made an extensive examination on the complex subject—"The Total Future of the Port of Saint John". In this work we have been assisted from many sources and particularly by the New Brunswick Research and Productivity Council. The special skills and research resources of R.P.C. have been of extensive assistance to us in this examination.

The result might well be considered an inventory of existing port facilities and an assessment of this inventory against the need for more modern aids in order to accelerate greater productivity—and consequent savings to the shipper in the trans-shipment of his goods.



The emphasis in this examination of the Total Future was directed into the areas that would employ modern equipment, new technology and special forms of automation that would permit the Port of Saint John to specialize in the handling of a great number of commodities.

At the outset—and we cannot say this too positively—the construction of additional piers and transit sheds—just for the exercise of creating a modern looking port, is in itself nothing more than sheer waste.

This is particularly true when such additional plant space is not designed to serve a specific purpose, that will fill a given role which will attract special forms of cargo with subsequent economies to the shipper because of the up-to-the minute handling methods and devices.

It is a well-known fact that the Saint John waterfront work force has the reputation of being among the most productive to be found at any port in the world.

However, this productivity must be further accelerated to keep pace with the dictates of changing economies now evident in the transportation industry. Only the very best in equipment and working conditions will contribute significantly in the struggle to further cut costs.

We urge the House of Commons Standing Committee on Transportation and Communications to support our request for the following port facilities:

#### CONTAINERIZATION

The rapidly growing impact of containerization in the world of transportation is obvious to all and is a subject we need not elaborate upon in this submission.

We propose that planning be undertaken at once and that the necessary funds be allocated by the Federal Treasury for a pilot plan investment in mobile, container-handling facilities at the Port of Saint John.

We are not recommending that a great capital investment be involved initially in the provision of such installation. This proposal suggests the placing into service versatile, mobile lift cranes to operate from existing pier aprons on both sides of the harbour and that several small container storage and cargo assembly areas be provided at advantageous locations within the port area.

The final objective of such a plan would be to ultimately develop a master container-port terminal to handle the cargo from “pure” container ships when the traffic volumes seem to justify a major expenditure.

The land areas for such a fixed installation are already available at Navy Island (20 acres) and Long Wharf (14 acres) for such container port operations. Both areas offer the capacity of back-up space so important to this type of facility.

Meanwhile, traffic in the container field moving through the Port of Saint John continues to grow and local steamship agents and stevedoring organizations report that the improvised methods and the cost of private crane rentals are placing the port at a serious disadvantage in the handling of container traffic.

#### BULK UNLOADING FACILITIES (Dry)

The need for a Marine Leg facility for the discharge of dry bulk commodities has long been advocated as a vital facility at the Port of Saint John.

This type of equipment has particular significance for the mill-feed producers, poultry and beef producers, and agriculture generally in the entire South-Western area of the Province of New Brunswick. In addition brewery operations would benefit materially. The handling of sulphur and potash is also dependent upon a marine leg for economic handling.

The New Brunswick Department of Agriculture, the Atlantic Provinces Feed Manufacturers Association and this Commission have long advocated this type of equipment for the port.

This subject has also been before the Atlantic Development Board on two occasions in recent years.

Unloading facilities of this type would create savings for the primary producers in the field of agriculture and would have a further tendency to stabilize grain and mill feed prices throughout the region.

South-eastern and South-western feed producers and farmers are faced with the costs of back-hauling their requirements from Halifax which has a marine leg operation.

Such facilities would also have an important role to play in the discharge of other types of bulk commodities, which now can only be unloaded through a slow and labourous clam or bucket operation.

Additional domestic grain storage facilities may also be required.

For many years—we have been told—tidal fluctuations have been a deterrent to such installation. However, we now know that Marine Leg units can be obtained that have telescopic suction spouts that will function under all types of tidal conditions.

#### BULK UNLOADING—(Liquid)

The need for liquid bulk unloading and loading equipment for both import and export has frequently been indicated. Steamship agents have often reported the refusal of this form of cargo, because of the failure to provide the necessary facilities. Involved in such traffic is Latex, Vegetable and animal oils, fats and liquid chemicals.

The importance of the molasses industry to Saint John is related to such a need. In addition it is recommended that the provision of bulk liquid storage tanks be provided within the port area for storage and holding purposes.

During World War II some primitive equipment was available here for liquid loading and unloading. However, this outmoded installation was not replaced and consequently this form of valuable traffic was lost to the port.

#### PERISHABLES—REFRIGERATED

Examination of the potential of the frozen food industry coupled with the imports of frozen meats from Australia and New Zealand points to the need for refrigerated or reefer-type facilities for the handling and storage of this form of traffic.

In addition certain forms of pharmaceuticals and other commodities demand this type of facility. Not the least of these is the fish packing industry.

This Commission maintains that with this type of service to offer—with this kind of facility not found at most ports, Saint John would be able to specialize in attracting volume movements from shippers not only in the Province and New England—but on a national level.

The savings to the shipper in this instance would be represented in the possible reduction of rail car demurrage costs, cargo assembly and the assurance of protection for his product.

It is proposed that such facility be located at dockside.

#### SCRAP METAL HANDLING

The movement of scrap metal through the Port of Saint John has all but disappeared. This at one time represented substantial business for the port. The lack of handling equipment again illustrates this situation.

A potential of 40,000 tons—from regional shippers—might be anticipated, should modern handling equipment be introduced.

#### OTHER REQUIREMENTS

During the 1930's all of the deep sea terminal facilities in West Saint John were rebuilt following a disastrous fire. Following the reconstruction the west side of the harbour offered the most modern facilities to be found anywhere in the world.

However, during World War II, and five years of hectic, round-the-clock, maximum use of these facilities with literally little or no maintenance left the entire port area in an almost disastrous state of ill-repair.

Since the close of the war and up until the early 1960's, an extensive job of modernization has been carried out on the east side of the harbour.

However, little or no new development was planned to the more extensive facilities in West Saint John. The work of maintenance alone became an extreme burden which has not been overcome, even now, almost a quarter of a century after the close of the war.

The area known as berths 5, 6 and 7 and northward to Pier 4 has almost ceased to have any practical use—and should normally be the most functional area within the port.

This Commission recommends to the House of Commons Committee that a total examination be made of the West Saint John port area and that in the early rehabilitation of facilities on that side of the harbour, that provision be made in such redevelopment plans for the following:

Container Facilities,  
Timber and Wood Product Handling,  
Scrap Metal Handling,  
Refrigerated Terminals,  
Bulk Unloading Facilities (Dry and Liquid), Automotive and Vehicle Handling, etc. etc.



## PORT ROAD AND RAIL SERVICES

In the studies carried out by the Port and Industrial Development Commission, an inventory of road and rail services indicated the need for improvement—with consequent economic benefits to the shipper—in the elimination of bottlenecks and restrictions that retard the free flow of cargos to the portside.

It is recommended that the road system—now related to the completion of the new harbour-bridge facility be examined. Access to some of the transit sheds requires improvement in as much as these were designed long before the advent of the huge transport truck. Access bays to terminal sheds also require modernization to permit ease in operation.

The railways do an excellent job in servicing the port areas on both sides of the harbour although the south-eastern approaches (over a single-line antiquated trestle) to the modern piers at Pugsley Terminal again create serious restrictions in access to these important east-side facilities.

## SWITCHING CHARGES—INTERCHANGE

Perhaps one of the greatest single handicaps to increased traffic movement within the port authority area is the switching charge for railway cars in interchange.

This antiquated method of charges levied by one railway system against its counterpart within the port area results in frustrations for the shipper and inflated costs which the shipper cannot understand and will try to avoid by not shipping through the port.

The Port of Saint John is unique in that the east side of the harbour is serviced by Canadian National Railways while West Saint John is serviced by Canadian Pacific Railway. This again is further complicated by the location of the vessel that is scheduled to take on the cargo. If the commodity is being moved by the Canadian National and the vessel is berthed in West Saint John the problem arises. Conversely, the opposite situation develops when the Canadian Pacific is the common carrier and the vessel is moored on the east side of the harbour.

In some instances the switching charge costs are all inclusive—but the charges are there nonetheless. In other instances and in particular class of commodity, the switching

charge is absorbed. However, the problem exists on a very wide range of commodities and acts as a deterrent to the inducement of additional traffic to the port.

We recommend that this antiquated method of assessment be abolished. The House of Commons Standing Committee will recall that some months ago the government (following consultation with the railways) announced the abolition of inter-switching charges in dozens of Canadian dual-railway communities.

## SAINT JOHN-DIGBY FERRY SERVICE

The subject of modern ferry service between the ports of Saint John and Digby has been the object of a great deal of work and exploration by the Saint John Port and Industrial Development Commission. In this vital matter of a modern transportation link with south-western Nova Scotia there has been close liaison and consultations with the various community and Board of Trade officials in Nova Scotia.

In June 1967, a strong delegation representing the Province of New Brunswick, the Province of Nova Scotia, the areas in Nova Scotia affected and the City of Saint John met with four senior cabinet officials in Ottawa on this vital matter. The twenty-member Ottawa delegation presented a brief in support of the new Saint John-Digby Ferry Service and were assured by the government (the then minister of transport) that “in the very, very, near future adequate ferry service would be provided connecting Saint John and Digby”. Other ministers present at the Ottawa meeting promised early and positive action would be taken.

Since the Ottawa meeting we have been advised of the continuing negotiations between the operating company and the federal government. However, the announcement anticipated some months ago is still not forthcoming.

We urge the House of Commons Standing Committee to consider what action should now be taken to bring about a prompt announcement that will lead to the early establishment of this new service.

Note: For the information of the House of Commons Standing Committee, we attach herewith a copy of the brief presented to the cabinet members in Ottawa last June.



## DEEP-SEA "SUPERPORT" FACILITIES

Much national press coverage has been given to comment attributed to sources in the Federal and Provincial Governments and the recent announcement by the Atlantic Development Board that studies would be undertaken to determine potential sites of the establishment of a superport along the Atlantic Seaboard.

These facilities would be designed to accommodate the giant, ocean bulk carriers of 100,000 to 500,000 tons. Areas in both Nova Scotia and New Brunswick have been referred to as potential sites offering water depths and other navigational requirements that would make the harboring of these great vessels possible.

The Port and Industrial Development Commission believes that such deep-sea terminals could well be constructed at the Port of Saint John or in the immediate waters consequently utilizing the great assembly of ancillary services, i.e. rail and road facilities, labour force, pilotage, marine repair services, and a host of other port conveniences already assembled.

The shorter overland haul by rail to the large central Canadian and United States markets and the availability of both of Canada's national railway systems already serving the port as well as an excellent waterfront labour force, harbour pilots and tugs are advantages that would represent many millions of dollars saved in providing such infrastructure to serve a total new superport concept elsewhere. The Port and Industrial Development Commission wants to go on record as advocating that the Port of Saint John and its potential utilization as a deep-water, superport be given top priority in any studies being undertaken by the Federal Government and the Atlantic Development Board.

## THE CHIGNECTO CANAL

Perhaps no proposed public project has had greater documentation over a longer period than the Chignecto Canal. A waterway connecting the Bay of Fundy and Northumberland Strait has been talked about for more than 275 years. The construction of same was a condition of Confederation.

Regional studies on this matter were made in 1822.

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Federally commissioned studies have been numerous dating from 1868. In 1882 the Chignecto Marine Railway Transport Company initiated action that would commence the construction of a marine railway that would carry vessels across the narrow isthmus. In the late 1920's, and the early 1930's, the Chignecto Canal was again before the federal government and again in late 1940's and early 1950's, the proposal again received federal attention.

This Commission feels that beyond any doubt the impact of a waterway connecting the Bay of Fundy and the Gulf of St. Lawrence would have economic advantages to the future of the Port of Saint John.

As a natural extension of the St. Lawrence Seaway and the traffic which that facility has generated, we believe this to be indicative of the opportunities that would result by making the Bay of Fundy a through waterway.

The industrial implications are also of significant nature in as much as this region of New Brunswick would be 480 miles nearer to the mammoth central Canadian market.

## SUPPORT OF OTHER PRESENTATIONS

The Saint John Port and Industrial Development Commission joins with those other regional and local boards and commissions and city council in supporting the briefs and presentations being made to you during your tour of the Atlantic Provinces. We particularly wish to endorse the views expressed by the Maritimes Transportation Commission with respect to the Maritimes Freight Rates Act and recommendations expressed in their brief dealing with the new non-carload rate structure introduced by the railways in September, 1967.

We support the stand taken in the brief presented by the City of Saint John dealing with the many requirements advocated and related to the future economic potential of the community.

We further concur in the recommendation contained in the brief presented by the Saint John Board of Trade and particularly as that relates to the proposed need for improved highway services and the concept of the East-West Interstate highway in the United States which would link New York State with the Atlantic Seaboard at St. Stephen, New Brunswick.

## IN CONCLUSION

We at the Port and Industrial Development Commission want to convey to the House of Commons Standing Committee on Transportation and Communications our thanks for the opportunity of presenting this brief.

We also want to take this opportunity to extend to the Committee our best wishes for

a successful conclusion to your deliberations here in the Atlantic Provinces.

On behalf of the Saint John Port and Industrial Development Commission,

Respectfully Submitted  
Philip W. Oland  
CHAIRMAN

February 13, 1968

## APPENDIX A-60

SUBMISSION TO THE  
HOUSE OF COMMONS STANDING  
COMMITTEE ON TRANSPORTATION  
AND COMMUNICATIONS BY  
THE SAINT JOHN BOARD OF TRADE  
FEBRUARY 13, 1968

Mr. Chairman and Gentlemen:

The Saint John Board of Trade wishes to commend you for your visit to the Atlantic Provinces. We appreciate the opportunity of presenting this submission to you and will look forward to appearing before your committee during your visit to Saint John.

Our Board of Trade has reviewed the terms of reference of your committee and we believe your purpose is to attempt to arrive at an understanding of the region's transportation system as it now exists. Our Board of Trade does not feel competent to outline for your committee in detail this present system, but rather, this brief will attempt to describe in a general way the existing facilities in New Brunswick, with particular emphasis on the southern part of the Province, and to outline the changes we feel would be most beneficial to our area.

In particular, this brief will attempt to point out the most important existing deficiencies in our area's transportation system. It will show the reason why it is felt most strongly that the industrial growth of at least the southern part of New Brunswick, and perhaps that of the whole Province, is dependent upon the growth of Saint John and how that growth is in large measure dependent in turn upon the existence of a modern transportation network or infrastructure.

The economic development policies of the Saint John Board of Trade are based on the premise of the growth centre concept. This concept has in recent years been widely adopted and promoted by all of the major organizations interested in the economic growth of the region.

The need for growth centres was emphasized in the submission which the Atlantic Provinces Economic Council made to the Royal Commission on Taxation in 1963 and

again in their submission to the Atlantic Development Board in 1965. It was further emphasized in the APEC publication, "A Development Program for the Atlantic Provinces", published in May, 1965. The establishment of growth centres for regional development was recommended by the Economic Council of Canada in its Second Annual Review of December, 1965 and by The Economist Intelligence Unit in their Atlantic Provinces Transportation Study published in 1967. "In fact, the building of centres of industrial agglomeration is recognized almost everywhere as a necessary part of a program for regional development."<sup>1</sup>

The Economist Intelligence Unit in their Atlantic Provinces Transportation Study have made several pertinent comments in this field.<sup>2</sup>

"Within a depressed area there are usually certain areas which exhibit greater growth potentialities than the region as a whole. Public policy should be particularly concerned to encourage the growth and development of such centres and thus hope to stimulate the development of the various external economies of scale which occur in prosperous and developing areas. Thus the Economic Council of Canada, in its Second Annual Review, laid down various guide lines for policy with regard to regional disparities and recommended the 'encouragement of efficient agglomerations of activity—growth centres—within the different regions in order to achieve increasing economies of scale, larger markets, and more useful pools of skills, and to avoid uneconomic scatter and dispersion'.<sup>3</sup>

\* 1. APEC Newsletter March, 1966.

\* 2. Atlantic Provinces Transportation Study Volume 5, Legislation and Public Policy, Page 175.

\* 3. Second Annual Review: Towards Sustained and Balanced Economic Growth, Economic Council of Canada, December 1965.



In the United Kingdom, public policy for many years gave concessions to distressed areas on the basis of the local unemployment rate. This did not result in a co-ordinated regional approach to what is essentially a regional problem, and gave rise to a situation whereby the least attractive areas of a region were eligible for assistance whereas an adjacent location was not eligible for assistance, although it was better endowed to attract new industry and although new industry in either location would result in benefit to the region. Regional development policy in the United Kingdom took a turn for the better in late 1963 when the concept of stimulating growth areas in depressed regions was adopted.\*<sup>2</sup>

We believe public policy should seek to improve the basic infrastructure of services and facilities in the natural growth centres, and that transportation is one of the major keys to growth. By developing the potential of these centres the effects of increased output, increased labour, increased profits and a generally accelerated economic atmosphere will permeate other sectors and areas of the region. All will benefit.

Saint John is the second largest city in the Maritime Provinces and the largest in New Brunswick. The metropolitan area's population in 1966 was over 101,000 or about one-sixth of the Provincial total. It is an industrial centre of the Atlantic region and its broad industrial base has already created a large number of industrial facilities and technical aids which are readily available to new manufacturing enterprises. This means that, on a per-dollar basis, financial expenditures will stretch much further in growth centres than they would in areas where such an industrial base is not available. It follows that the Province as a whole would profit more by the stimulation of existing growth centres than it would by incentives made available elsewhere.

Transportation is one of the major factors in creating the infrastructure required for Saint John—which should be New Brunswick's major growth centre. However, the transportation network connecting this area with others requires many improvements. Failure to provide essential services will seriously hamper Saint John's present ability to compete as well as Saint John's and New Brunswick's ability to grow and develop. Outlined below are some of the many transportation needs which require urgent attention.

\* 2. See footnote 2, p. 689.

## HIGHWAYS

Highway transportation is widely accepted as the main transportation infrastructure. Although highways are primarily a Provincial responsibility, the Federal Government has shown, and is continuing to demonstrate its interest, through the Trans-Canada Highway program, the Roads to Resources program and through the Atlantic Development Board grants to Provincial highway programs.

The highway system within Saint John and to immediate points outside of the City is totally inadequate. The following facts should be noted:

- Saint John is not on the Trans-Canada Highway system.
- Saint John does not have a bypass road circumventing the metropolitan area nor has detailed planning been completed for such a bypass.
- Saint John is linked with New Brunswick's capital city only by a two-lane second-grade highway (distance 65 miles).
- Saint John is linked with Moncton (95 miles) by a two-lane highway.
- Saint John is linked with St. Stephen (85 miles) and the United States by a two-lane highway part of which is still poor grade with the exception of approximately thirty miles.
- Traffic within Saint John moves without the benefit of any four-lane highway system. Although a new harbour bridge is under construction, thus helping to solve an existing problem, it will create additional new problems unless feeder routes and access routes are constructed to cope with the internal problems created within the City.

We would refer you specifically to "A Submission to the Atlantic Development Board with respect to Highway Transportation" prepared by the Province of New Brunswick in April 1967. This brief contains a wealth of information and outlines the need for highway links to and from Saint John. We endorse this submission and commend it to your attention as it states the case for New Brunswick highway requirements most adequately.

### *East-West Interstate Highway*

During the past several years there have been several proposals for a "short route highway" from Maritime points through the

state of Maine to central Canadian and north-eastern United States markets. These proposals all had merit, but currently the most practical plan of which we are aware is the "East-West Interstate Highway". This proposal, which originated in the United States, would provide many tourist and industrial benefits for the Maritime area.

Basically, the proposal is to build an interstate highway from Calais, Maine, west through Bangor and from there west through New Hampshire, Vermont and into New York State, terminating at Amsterdam. At this point it would join with the New York Thruway and continue from there to Buffalo and westward on existing highways to Cleveland and the entire mid-west. (Please see map of route attached).

From the United States point of view, and in particular the view of Maine, New Hampshire, Vermont and New York, this highway would provide a new important access road for a vast population as well as providing the facility required for the growth of commerce and tourism, both regional and international, for the northeastern United States and Eastern Canada. At the present time all major highways through these areas are of a north south direction.

This East-West Interstate Highway plan proposes several branch or feeder highways. At Bangor, the East-West Highway would cross the Maine Turnpike which leads to Boston and all New England points. There is also a planned route to go north to Sherbrooke, P.Q. and from there the Autoroute runs into Montreal. A third major link would be from Amsterdam, New York, north to the Trans-Canada Highway.

This proposal opens extremely exciting possibilities from both a Canadian and Maritime point of view.

- A shorter and more direct route from Southern New Brunswick, Nova Scotia and Prince Edward Island to the Central Canadian markets.
- A shorter faster route from the Maritime to Boston and New York markets.
- Access to the mid-west markets of Cleveland and Chicago.
- Access to the tremendous tourist potential of the New England and East-North Central United States.
- Provide an improved alternate method of transportation to existing rail facilities.

It should be noted that there is no existing direct rail service in the Maritime area to any of the markets which would be served by the East-West Highway. In effect, at the present time, the Maritime area is virtually isolated from any of these markets. As an example, to ship a rail car of freight from Saint John to Boston, an involvement of four railway lines is necessary and three days in transit time. As there is no direct rail passenger service between Saint John and United States points, the only means of transport is by highways.

In concluding this portion of our submission, we contend that the following transportation links are urgently required:

- (1) All weather highways of capacities adequate to meet existing, as well as, future needs on the following routes:

(a) St. Stephen—Saint John—Moncton

—Halifax. This route is absolutely essential for internal traffic in this region, but in the light of the forgoing comments on the East-West Interstate Highway, which is under active study in the United States, we submit that this route assumes even greater importance as a link between this region and the north eastern and north central United States.

(b) Saint John—Fredericton—Newcastle  
—Bathurst—Campbellton

- (2) A modern efficient ferry service across the Bay of Fundy from Saint John to Digby, about which more will be said later. This link also assumes greater importance in light of the East-West Highway plan. The present road distance from Digby to Saint John is 440 miles.

#### AIR TRANSPORTATION

Current projections indicate that the present passenger and cargo facilities provided by the Saint John Municipal Airport will not be sufficient to handle the traffic indicated for the future—even allowing only normal growth rate. Available figures show a 30 to 40 percent increase per year since 1960 in cargo handling. Forecasts for the next 5 to 10 years indicate this yearly increase should continue. Virtually no bulk shipments are now made from this airport; the principal commodities are packaged goods. The facilities at the Saint John Airport are not adequate to handle the present amount of air cargo business.



With the increasing importance air traffic is playing in the development of our economy, and keeping in mind the improvement in air transport that will be necessary to facilitate the proper development of this growth centre, it is deemed advisable at this time to consider long-range planning to determine the best method of providing improved service.

We think it is clear that if Saint John is ever to become an important growth centre, it is essential that there be available in this area an all weather airport facility capable of taking its place on major international air routes.

Improved movement of passengers and cargo by air within the region is equally important with improved connections to outside points. Encouragement of existing or newly established airlines to extend such service within the region and specifically to Saint John would do much to fill a void presently existing and enable Saint John industry to compete with other centres on a more equal basis for available regional markets. Specifically, for example, there is no regional air service between Saint John and Bathurst, Campbellton or Edmundston.

#### MARITIME FREIGHT RATES ACT

The need for equal opportunity for all Canadians in all regions of the Country is an accepted target today. This was first recognized by the Railways' rate structure in the Atlantic Provinces and was reaffirmed by the implementation of the Maritime Freight Rates Act in 1927.

It is widely felt, however, that no lasting solution to the transportation problems of this region has yet been developed and accordingly, the Governments of the four Atlantic Provinces, recognizing the importance of transportation in the development of the economic growth of the Provinces, have recently established a task force. They plan to place, among other things, a positive proposal before the Federal Government for a modernization of the Maritime Freight Rates Act and we endorse this approach. More background information on this subject has been submitted to you by the Maritimes Transportation Commission.

#### LESS THAN CAR LOAD FREIGHT RATES

Freight rates in general and the application of the less than car load freight rates in particular, are extremely complex and highly

technical subjects. Comment on these requires a high degree of expertise and this brief will not attempt to present detailed comment.

We believe that the recently imposed higher less than car load freight rates have fallen and will continue to fall heavily on both shippers and consumers in the Atlantic Provinces but the Maritimes Transportation Commission will present a detailed submission to you outlining the expected effects of such rates. We endorse the submission of the Maritimes Transportation Commission.

#### BAY OF FUNDY FERRY SERVICE

The historical association that has linked the Provinces of New Brunswick and Nova Scotia together is well known. The importance of a strong trading link between southern New Brunswick and southwestern Nova Scotia has been established over a number of years and this connecting link was particularly important during the Second World War in times of national emergency.

The present facility linking these two parts of Canada are inadequate. There is only one ferry which operates ten months on a once daily round trip basis—six days a week and during the two summer months, once daily seven days a week. It cannot accommodate any trucks over  $\frac{1}{2}$  ton in size. This necessitates extra handling in off-loading and reloading cargo at dockside for further forwarding. This extra handling is costly and reduces the competitive position of our goods, as well as increasing cost to the ultimate customer. These are obvious benefits to both the Province of Nova Scotia and the Province of New Brunswick by greatly improving the link between these two regions. A much improved ferry link in conjunction with the proposed East-West Interstate Highway would enable manufacturers in the southwestern part of Nova Scotia, and in fact all of Nova Scotia, to have a much quicker and more direct link with the vast market of the Eastern United States and Central Canada.

It would allow manufacturers in southern New Brunswick a wider area for their own markets by being able to move these goods to Nova Scotia at a much reduced rate compared with truck transport around New Brunswick to Nova Scotia, which presently is a route of some 440 miles. The benefits to the tourist industry are obvious. With the number of tourist cars increasing at the rate of 10 per



cent a year, this is becoming one of our major industries. We cannot hope to keep or improve this unless we can provide the type of facilities tourists are accustomed to elsewhere.

In summary, we fully endorse the brief submitted on June 26, 1967, by the Mayors of Saint John and Digby, which recommended the introduction of a new, totally integrated service, that is, a ferry that would accept cars, trucks and tractor trailers complete and which would make more than one return trip a day. In other words, this would be a similar service, with the exception of rail cars, to what now exists between Cape Tormentine, N.B. and Borden, P.E.I. This brief urged immediate action by the Federal Government and the Canadian Pacific Railway, both of whom have agreed to the principles of this submission. A copy of this brief has been attached to the submission made to you by the Saint John Port and Industrial Development Commission.

*Chignecto Canal*

The need for the Chignecto Canal has been advocated for many years on the basis that it would revitalize the entire economy of the Maritime Provinces. This canal would be built across the narrow Isthmus of Chignecto between Nova Scotia and New Brunswick. A number of reports have been written on this subject and they need not be repeated here.

Among the reasons advocated for this canal are:

- (1) It would be a natural extension of the Great Lakes, the St. Lawrence Seaway and the St. Lawrence River, as it would provide a short route in sheltered waters. The vessels built for the coastal and inland water trade are not suited for the long hazardous circuit in the Atlantic Ocean, and the perils of this passage would be eliminated by this canal. With the construction of the deep water port in southern New Brunswick, the Chignecto Canal would be a natural link with the St. Lawrence Seaway and Central Canada, feeding cargo to and from the super ships of the future (for further comment on this subject see Deep Water Port, pages 15-18).
- (2) It would provide industries with the benefits of new low cost water transportation and would extend the market radius for local products. The

benefits would be reciprocal i.e. increasing benefits would be felt in Central and Western Canada in lower prices for commodities delivered there, and also in lower transportation for Western produce delivered to the markets of the Atlantic region.

- (3) It would reduce the distance of travel. Examples of transportation miles saved include Saint John to Newcastle, N.B. (470 miles), Saint John to Montreal (396 miles), Summerside to Saint John (477 miles) and Montreal to points along the eastern seaboard of the United States.
- (4) It would increase regular steamship sailings between the Atlantic Provinces and Central Canada.
- (5) It would make it convenient for vessels plying between Montreal and points in the Atlantic seaboard to call at ports, not only in the Bay of Fundy, but in northern Nova Scotia, Prince Edward Island and northern New Brunswick, to load or discharge cargo "in passing".
- (6) With the increasing development of minerals in the northern part of the Province, substantial savings in shipping costs would result because of the closer link between southern New Brunswick and that area.

Powerful arguments have been put forward for this project. We believe the Government should take a fresh look at this project and we recommend a full scale feasibility study should be undertaken to determine how this project could be completed.

THE PORT OF SAINT JOHN

Saint John is one of North America's major Atlantic ports. In recent years, the full potential of the Port has not been realized and it's contribution to the economic prosperity of Saint John and New Brunswick has grown relatively smaller. There are many reasons but perhaps the major ones are the following:

- (1) The growing use of Quebec City and Montreal as all year round ports;
- (2) The lack of industrial development in New Brunswick to make use of Saint John's port facilities on a year round basis; and
- (3) The lack of modern specialized facilities.

It is not the Board's intention to dwell in detail on the deficiencies of Saint John's port

facilities since the subject is dealt with extensively in the brief of the Saint John Port and Industrial Development Commission, which this Board has had an opportunity to examine. The Commission carries on a continuous study of the Port and its facilities and makes strenuous promotional efforts on its behalf.

The Saint John Board of Trade wishes to endorse the position of the Port and Industrial Development Commission as outlined in its brief presented to you, but does feel that some of the major points made therein are worthy of reiteration here:

- (1) It is submitted that it can be clearly demonstrated that Saint John has all the essential physical characteristics and the necessary skilled labour force to become a large scale container handling port—the Rotterdam of North America.
- (2) The Saint John Board of Trade feels most strongly that the Port's general cargo facilities must be maintained at a high level of excellence and that the following specialized facilities are most urgently needed;
  - (a) Extensive bulk storage facilities (both liquid and dry);
  - (b) a marine leg (a bulk unloading facility);
  - (c) Mobile container handling cranes;
  - (d) Cold storage facilities.

The above facilities are all urgently required for the Port of Saint John to enable it to continue to develop in its present role.

#### DEEP WATER PORT

A deep water port, capable of handling super ships, is required on the Atlantic Coast of North America. Recently, the Atlantic Development Board announced it will carry out a major survey to determine the feasibility of a super port in the Atlantic region in relation to prospective North American trade traffic and the stimulation of industry. This survey will be completed this year and may be followed by a study of the sites recommended for prospective development as deep harbours.

We believe the Atlantic development Board should be commended for taking this progressive step. However, action is required as soon as possible as the introduction of these new

super ships is a reality. Canada must not wait only to find this business being diverted to American ports.

A number of locations in New Brunswick and Nova Scotia have been mentioned as possible sites for a super port to handle these super ships which will be up to 500,000 tons—or more. Believing, as we do, that the development of Saint John as a major growth centre is vital to the economy of New Brunswick and indeed, the Atlantic region, we emphasize that this study should first determine whether the Port of Saint John—one of the two existing national ports in Maritime Canada—has the potential to be developed as a deep water terminal. Only after having proved our two national ports do not have this potential should alternative sites be considered. Saint John already has much of the infrastructure and back up facilities required to support this concept.

Initial examinations have produced a deep water port plan for the Port of Saint John. This preliminary plan would involve the construction of two new breakwaters and would provide additional waterfront facilities on both the east and west sides of the Harbour. It is important that this plan and alternate plans should be studied to determine their feasibility from both an economic and engineering standpoint.

This above mentioned proposal would provide:

- More than two miles of new, protected frontage for deep water piers having 60-70 feet of water at low tide.
- More than 11,000,000 square feet of new back up space for cargo sheds, grain elevators and container assembly areas to serve the new piers, with easy rail connections.
- An offshore mooring, served by submarine pipe lines, for tankers of up to one million deadweight tons, with 150 feet or more depth of water.

Saint John is ideally located to become the super port terminal on the eastern North American Continent. It is easy to visualize huge super ships from world ports arriving at Saint John from where the goods would be transferred to all Canadian and many American points.

- Containers would be unloaded from these huge ships which are too large to play

the seaway. They could be transferred on barges or smaller ships now travelling the St. Lawrence Seaway. The Chignecto Canal, if completed, would be an extension of the St. Lawrence Seaway and would enable these ships or barges to travel directly from Saint John in protected waters to the Great Lakes.

- Saint John is served by the two national railways and is the closest developed Atlantic Port to Central Canadian markets and is also the closet Canadian Port to the United States' markets.
- The Port of Saint John, being the closest Port on the east coast of Canada to western ports, could be the eastern terminal of a land-bridge across the country.
- Goods arriving at this super port in transit to American points could be transferred to smaller ships.
- With the completion of the East-West Interstate Highway trucks would be able to transport these goods to the New England and Central United States.
- With the improvement of the Bay of Fundy Ferry Service, goods could be easily transported to Nova Scotia by water.
- The present existing facilities in Saint John would be utilized including rails,

road, labour force, pilotage, ship repair facilities, etc., which already represent many millions of dollars of investment.

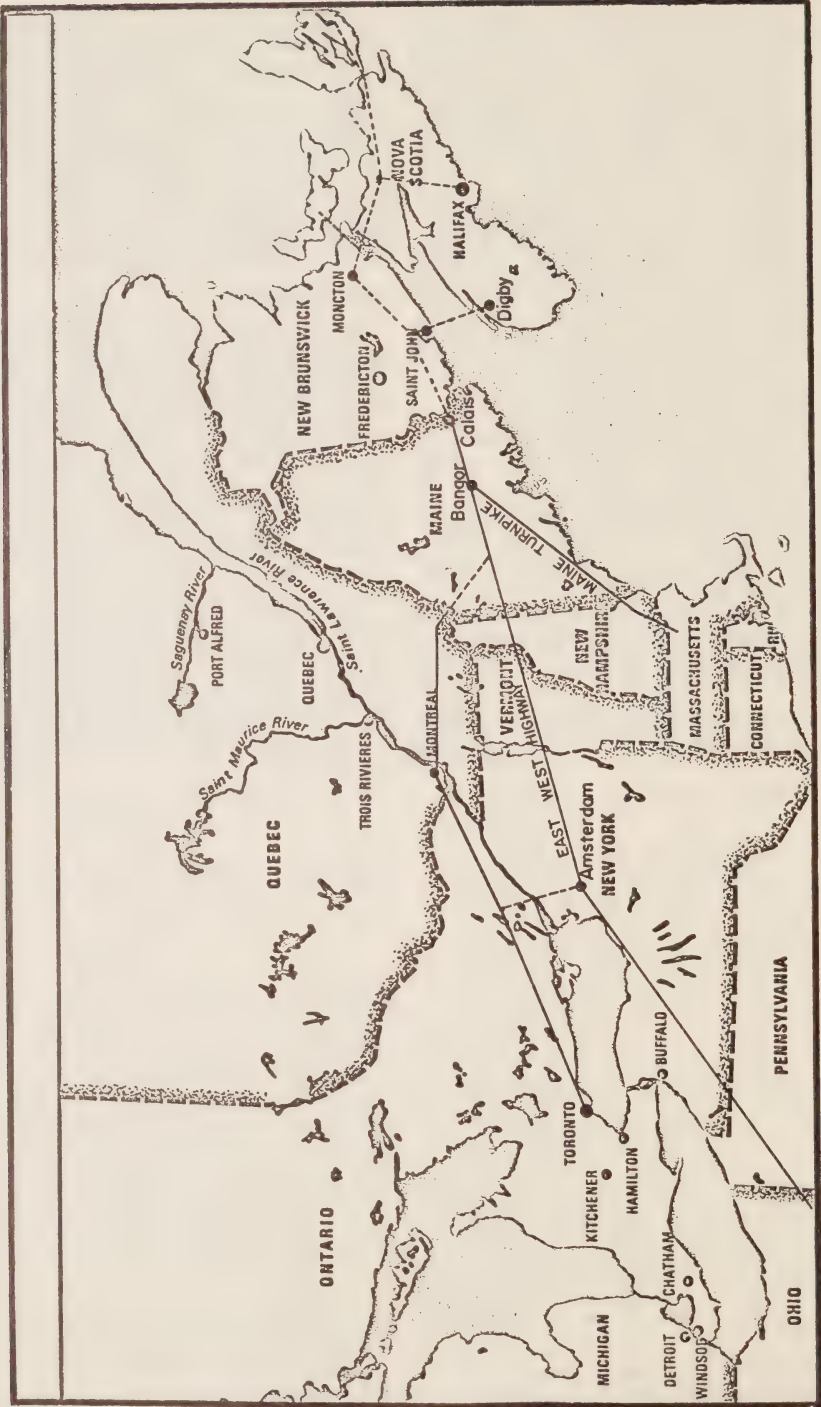
The construction of a super port terminal at Saint John, in conjunction with the Chignecto Canal would provide enormous economic benefits to the entire Atlantic region. The Saint John Board of Trade believes priority should be given to a feasibility study of this by the Federal Government.

## CONCLUSION

In speaking of the development of highways, the MacPherson Royal Commission on Transportation—1961 said, "... the problem seems likely to require a co-ordinated Federal-Provincial effort to develop an integrated National highway network which could provide a basis for motor transport services in all areas of the Country as adequate, relative to traffic, as that which presently serves a heavily populated and industrialized area of Central Canada".

We submit that unless this philosophy of co-operation as expressed by the MacPherson Royal Commission is applied to all forms of transportation in this region, the gap in all areas of economic development between the Atlantic region and the rest of Canada will continue to widen as it has in the past.





TRANSPORTATION BETWEEN GRAND  
MANAN ISLAND AND THE NEW  
BRUNSWICK MAINLAND.

A Brief Prepared by the Board of Trade,  
Grand Manan.

February 1st., 1968

BACKGROUND.

The Island of Grand Manan is located about twenty miles from the mainland of New Brunswick, Canada. It is 18-20 nautical miles from Black's Harbour, and about 50 miles from Saint John, the nearest major seaport on the New Brunswick mainland. The Island has a permanent population of about 2700 persons. The archipelago was first settled as a haven for Loyalists on land later granted by the Crown. It was expected at that time that fishing would become the major industry, however, for the first 150 years or so, farming was secondary occupation for the residents of the island. Family farms were necessary for survival if the island was to be self-sufficient. The island soil, the short growing season, and inclement weather for crops soon proved unable to support the needs of the population. From earliest days Grand Manan has depended upon the mainland for many of the basic essentials of life. Today except for fish and some dairy products, the entire food supply must be imported.

THE FISHING INDUSTRY.

The fishing industry outranks all other forms of employment on Grand Manan. A fleet of 150 boats, 100 of them large draggers or seiners is permanently based on the island. In addition, many other boats from Nova Scotia and mainland New Brunswick make this their operating base because of the superb location in the mouth of the Bay of Fundy.

Statistics on the annual catch of ground fish, herring and lobster give an idea of the size and growth of the fishing industry in recent years:

	Total Catch	Market Value
1961 ....	104,055 cwt.	\$ 517,791
1962 ....	287,833 cwt.	825,436
1963 ....	355,825 cwt.	882,679
1964 ....	306,162 cwt.	840,215
1965 ....	350,098 cwt.	954,406
1966 ....	648,115 cwt.	1,421,469

These statistics of course apply only to fish caught and brought to market on the island.

It is estimated that the figures represent only 25 per cent to 33 per cent of the fish caught and sold by island fishermen. There is a growing investment in fishing equipment as well. Several of the larger boats are worth over \$100,000. A new seine alone may cost \$20,000 to \$30,000. One of the best equipped boats is worth over \$500,000. Parts and supplies for this valuable and productive fleet, to keep it operating at maximum efficiency, must come from the mainland. Delays in the delivery of replacement parts, difficulty in obtaining gear, delays in getting fish to market, all affect the economy of the island, and, ultimately, of the Province.

THE TOURIST INDUSTRY.

Grand Manan is one of the most beautiful islands along the Eastern Seaboard. It offers a quiet, restful atmosphere abounding in wild life. It is renowned for its large variety of birds, and is on the coastal migratory flyway, making it a superb place for observation and study. Its dramatic cliffs, its secure harbours, its trout streams and forests make it a natural vacation spot. With improved transportation to the island, the number of summer residents, tourists and excursionists could well be doubled or tripled without spoiling the character of Grand Manan. With careful planning, the vast wild acreage of the island could be developed as additional park and recreation areas.

With the exploding population on the East Coast of the United States and Canada, the demand for such unspoiled beauty will soon outstrip the supply. The upper coast of Maine already shows how fast this kind of development is spreading.

The tourist industry offers excellent returns both to the island and to the province. A typical resident with his family, staying for a month in a home which he either owns or rents, might well add as much as \$1,000 to the island economy.

There are other gains to be had from the increase in the number of tourists. New jobs could be created, such as charter boat fishing, guiding for hunters and fishermen, the hotel and motel trade, the sale of native handicrafts, and the by-product of better recreation facilities for the islanders themselves would result.

At the present time the accommodations on the island are limited mainly because of the

erratic schedule and operation of the boat. Hotel and motel owners will not expand their facilities until it is possible for a visitor to come here easily. It is futile to advertise, as there is no guarantee that a tourist can get on or off the island at his convenience. Until service is improved there will be no expansion of the tourist industry.

THE COST OF PASSAGE ON THE PRESENT BOAT.

The fares on the motor ship, *Grand Manan* are exorbitantly high. Since this is the only means of transportation to and from the island which is not dependent on fair weather, the island people must pay well beyond their means to accomplish even the simplest, necessary errands on the mainland.

For example: If a mother, an island resident, must rush a child to a hospital in Saint John, the minimum cost of such a visit would be \$35.00 to \$45.00. The round trip ticket for herself is \$2.50, and for the child \$1.25. If she takes the family car, add another \$5.00. Tourists pay double these figures.

The present schedule does not allow such a trip to be made during one day. The morning

boat arrives at Black's Harbour at about 9:45 A.M. and the returning boat at 2:15 P.M. Hardly enough time to make a dash to Saint John, 50 miles away see a doctor, and return! The result is an extra cost for meals and overnight lodging in Saint John. There is not even the guarantee that a returning traveller could get on a Grand Manan bound boat. Several persons have been forced to stay an extra night for this reason. The only other means of transportation is the airplane, on which the round trip is \$20.00, plus the cost of ground travel from the airport to the city. This is totally dependent on fair weather.

The same conditions also affect the fishermen and business men of the island. They are trapped by their location and by the present operation of the ferry. The cost of a necessary trip to Saint John or Fredericton becomes exorbitant; in an emergency cruel and oppressive.

COMPARABLE COSTS ON OTHER CAR FERRIES.

For a subsidized ferry, the costs on the *Grand Manan* seem very high if compared to other services.

Deer Island Ferry.....	As many as 14 trips a day.....	FREE
Prince Edward Island.....	Frequent trips from 6 a.m. to 11 p.m. from N.B. 7 a.m. to dusk from Wood Island. All season rates (do not have frequency)	(\$3.90 return Car and driver.)
Newfoundland.....	.....	\$3.00
Sydney to Port aux Basques	.....	
Saint John River.....	Many ferries-frequent trips.....	FREE
Grand Manan Ferry.....	Two trips (summer only)..... One trip (winter)	\$14.90 car and driver (tourist \$7.50 residents)

Other statistics must be available which would show that these fares are high. There are many free crossings of rivers, lakes and other bodies of water throughout Canada which could be listed to strengthen this case.

In terms of need, the population of Deer Island is 1100, less than half of that of Grand Manan.

INCONVENIENCE OF THE PRESENT FERRY SCHEDULE FOR TOURISTS.

At the present time, only a dedicated lover of Grand Manan could possibly get to the

island. The mainland terminal of the ferry is difficult to find even when it is not foggy, and is located about seven miles from the main road. The chance of getting on the boat with no system of reservations to the island is very slim.

Often during the summer months as many as 20 cars are left waiting at the dock after the morning run. Few first-visitors would have the patience to wait for a later boat, much less to return, after seeking a night's lodging at Black's Harbour, to try again on the next morning boat. The effect of this chaotic system is almost deliberately to discourage tourists who wish to arrive by car.



In addition, present bus schedules make it impossible to make a satisfactory connection to any major city. The buses to and from Boston and New York leave one stranded at Pennfield hours from sailing times. The buses to and from Saint John are little better. None comes anywhere near the arrival time of the morning boat at Black's Harbour, and the afternoon but requires a taxi ride into the village of Black's Harbour.

Under the circumstances, it is no wonder that the hotel and motel business has diminished over the past two decades. Tourists are tied to their cars today and expect a minimum of inconvenience when planning summer holidays. The result of poor ferry service is a great loss to the island, both in income and other benefits brought by expanding tourism.

#### NATURE OF THE CONTRACT WITH COASTAL TRANSPORT LTD.

When the new Grand Manan ferry boat was first projected as a replacement for the obsolete nine car boat, it was proposed to have three trips a day during the peak season and two during the winter months. This pledge was not kept. A letter from the Grand Manan Board of Trade, sent by the Secretary of the Board on August 23/66 and again on March 11/67 was answered by Coastal Transport Limited as follows:—"I believe that you should have forwarded this letter to the Department of Transport for action, and the carbon copy to me for information. There is nothing that we can do, except fulfill the terms of the contract. However, if the Department of Transport wishes to change any terms of the contract, then we will carry on from there." Since the ferry is a subsidised operation of the Ministry of Transport, the question arises as to why the question of profit should enter into the arrangement. See letter from H.R. Coles, Director of Subsidised Steamship Services, dated August 23rd. 1966, which states "I would point out that as no profit was made in the operation of the service last year, and as expenses are continuing to increase, consideration could not be given to a reduction in fares at this time." Surely a reasonable margin of profit was figured into the basic contract. If the services are failing to serve the island under the present contract, then either the contract should be let to

some other party who will provide the needed services, or the subsidy should be increased.

The citizens who live on Grand Manan are as much a part of New Brunswick as any who live on the mainland. Roads are built to even the most remote hamlets on the mainland to accommodate the residents. Such persons are not taxed an extra levy every time they use these roads. For the people of Grand Manan the use of the ferry boat requires them to pay a special tax of over 20¢ per mile each time they travel off the island. The Board of Trade believes that most of this high cost should be met by the Federal and Provincial Governments.

#### PROBLEMS RELATED TO THE DELIVERY OF FREIGHT.

For various reasons, unconscionable delays have attended the arrival of freight to the island. Storekeepers and businessmen have lost sales, received spoiled and damaged goods and been unable to fulfill contracts as a result of inadequate freight service. Even simple orders seem deliberately to be detained in Saint John as though no one knew where Grand Manan was. This loss to business and industry would never be tolerated on the mainland.

One load of perishable fruits and vegetables was held in a closed truck for 42 hours between the time it was supposed to have left Saint John and the time the storekeepers on Grand Manan actually received it. Only one firm, the existing franchise operator, has a franchise to bring freight to the island. There is absolutely no provision for the handling of loose cargo on the ship, as all hold space is taken up with cars and trucks. The cost for a large truck such as Baxters is 50 cents per lineal foot each way, plus regular passenger fare each way for the truck employees, and constitutes a large proportion of the cost for trucks coming to the island. The driver has to get to Black's Harbour by 8 A.M. in order to get on the 10.15 A.M. boat, since there is no system of reservations. The result of all this is to discourage trade with the island. Fresh fruits and vegetables are very scarce and often arrive damaged. Milk from the mainland arrives sour. Crates of equipment, containing expensive radar instruments needed on the boats, have been crushed in transit between Saint John and the island.

## SUMMARY.

The present arrangements and operating procedures on the Grand Manan ferry are inadequate. The present fares are much too high for tourists and impose severe hardships. Business is hurt, and tourists are discouraged from visiting the island.

## PROPOSALS.

1. That residents of the island and those who must make frequent trips to the island on business be given favourable rates. This might be done by means of a round trip excursion ticket from North Head to Black's Harbour for the residents, and a commutation book for those who make frequent trips, for deliveries or business, at rates which should not be more than half of the present fares, so that all visitors, including tourists, would be on a par with residents of the island.

2. That during the peak season no car be turned away from more than one boat. This would mean scheduling a third and even a fourth boat during July and August. It would also require reinstating an efficient reservation system with a central office, at both terminals. (At present a few reservations are made for cars leaving the island).

3. That a committee of three island residents be selected to work closely with the office of the Minister of Transport in the supervision of the contacts with Coastal Transports Limited, and of the franchise with the existing Truck franchise operator so that the voice of the island might be heard in decisions relating to such important aspects of the life of the island.

By the Board of Trade.

Grand Manan Island.  
New Brunswick. Canada.

# APPENDIX A-61

## BRIEF BY GANONG BROS. LIMITED TO THE PARLIAMENTARY COMMITTEE ON TRANSPORTATION IN THE MATTER OF RAILWAY NON-CARLOAD FREIGHT RATES

Saint John, N.B.

March 4, 1968

TO: THE PARLIAMENTARY  
COMMITTEE ON TRANSPORTATION

Ganong Bros. Limited of St. Stephen, New Brunswick, is one of Canada's largest confectionery manufacturers selling its products from coast to coast. The Ganong company employs about three hundred (300) people, and has been a mainstay in the economy of this small New Brunswick community for ninety-five years.

The recent introduction of the new non-carload freight rates has created a serious problem for the Ganong company. The area of greatest concern is the new *effective* minimum shipment of three hundred (300) pounds and the 20c extra charge for each case over one.

A study of the effects of the new freight rates and rules shows the following:

1. Due to the nature of the business, 64 per cent of all non-carload shipments are under 300 pounds.
2. An average increase in cost of 85 per cent of shipments under 300 pounds.
3. An average increase of 43.1 per cent on all non-carload shipments in the Atlantic Provinces.

The increase in non-carload freight to Ganongs will impair its ability to compete with Central Canadian manufacturers. Ganongs outward freight in 1966 was in excess of 6 per cent of gross sales. In 1968 this could increase by as much as 12 per cent of sales to a total of

8 per cent of gross sales if the new non-carload structure should remain unchanged.

(See Appendix I, p. 703)

## GREATER USE OF NON-CARLOAD RAIL TRAFFIC

The volume of non-carload rail freight per capita is higher in the Atlantic Provinces than in any other region of Canada. In Central Canada most confectionery is shipped by road transport, therefore use of non-carload shipments creates a greater increase in the average freight cost on goods shipped within the Atlantic Provinces.

The major reason for a greater percentage of the traffic shipped non-carload in the Atlantic Provinces is insufficient truck competition. As an example, in October 1966 there was an increase in the carload rate of sugar of four cents (4c) per hundred pounds which increased Ganongs "Inward Freight" cost on its chief raw material by 30 per cent. In Ontario where truck competition is very keen the rail rate between Toronto and London was not increased so the Company's largest competitors in General Confectionery were not affected.

## SMALLER AVERAGE SHIPMENTS

The three hundred (300) pound effective minimum and the 20c upcharge on extra cartons affects the cost of shipping confectionery to a greater degree in the Atlantic Provinces because the average non-carload shipment is considerably smaller in this region than elsewhere in Canada.



### SMALLER OUTLETS

The average wholesale and retail outlet in the Maritime Provinces is smaller than its counterpart in the Central and Western regions of Canada. These outlets require frequent shipments to keep their inventory costs at a minimum and maintain a fresh stock.

### GREATER PER CENT OF INDEPENDENT FOOD STORES

Twenty-three (23) per cent of all confectionery is sold through the retail food store and the per cent is increasing. In most of Canada the majority of this business is done by the larger chain supermarkets. In the Atlantic region 50 per cent of the retail food stores are independent as compared to only 5.4 per cent in Ontario. These independent stores require direct shipments which usually fall below three hundred (300) pounds shipping weight.

### LACK OF DISTRIBUTION CENTERS

The food stores in Ontario, Quebec, and Western Canada maintain central merchandise warehouses. In these regions a manufacturer need only make one large shipment per week to their distribution warehouse from which the goods are then distributed by the Chains at their own expense. This gives the manufacturer selling in these regions a low distribution cost.

In the Atlantic region, however, the situation is completely different as no food chain maintains a distribution center, and confectionery is sold and shipped directly to the individual retail outlets. As an example, of one hundred sixty-three (163) shipments made to twelve (12) retail chain food stores in 1957 from St. Stephen to Saint John, New Brunswick, only thirty-four (34) were over three hundred (300) pounds, and one hundred fourteen (114) were under two hundred (200) pounds. This is to be compared to shipments made of one thousand to two thousand pounds to the distribution centers of these chains in Montreal.

The effect of the new non-carload rate is greater because of the number of under three hundred (300) pound shipments in the Atlantic region as compared to the rest of Canada.

### SMALL SHIPPING CASES

The average carton weight for general confectionery is between fifteen to twenty pounds. This means on a two hundred pound

shipment of confectionery there would probably be twelve (12) cartons with an extra charge of \$2.20 on an invoice price of about \$70.00—in other words, a per case charge of more than 3 per cent or half of last years average freight.

This creates a situation in combination with the regular under three hundred (300) pound charge where it is not profitable to sell or ship the order, and yet there is no other way to obtain the business. The Central Canadian manufacturer is in a position to make shipments to the Atlantic area stores on a break-even basis as it is a small proportion of his total business, and he does it as a service to the chain he sells in volume in Central Canada. This, however, is unprofitable for the Ganong company which has to sell the majority of its products in the Atlantic and Eastern Quebec areas.

This combination of conditions is far more serious to the Ganong company than the confectionery industry generally as Ganongs do 50 per cent of their business in the Atlantic Provinces as compared to their competitors in general confectionery who do less than 10 per cent in the Atlantic region. The greater proportion of our business in the high freight cost area seriously impairs our competitive position.

Selling prices in the confectionery industry are generally set by the large Ontario manufacturers and prices are usually consistent across Central and Eastern Canada. The manufacturers in Ontario have experienced these larger freight increases in the Atlantic region but in Ontario and Montreal where the majority of their business is done the increases have been small due to the large use of truck transport available to them; their percentage increase in total freight cost is, therefore, relatively small compared to Ganongs. Ganongs have to absorb the additional freight costs, and the drain on profits in a very low profit industry is creating a serious problem for the Ganong company, and its ability to compete from St. Stephen, New Brunswick.

The effect of "Outward Freight" on Ganongs ability to remain in New Brunswick is further complicated by the "Inward Freight" situation since much of our raw material must be brought in to New Brunswick from Upper Canada. "Inward Freight" is a much higher cost to Ganongs than to its Central Canadian competitors. These items, many of

which are shipped non-carload freight, have experienced a considerable increase especially those shipments under three hundred (300) pounds. Ganongs "Inward Freight" cost is probably the highest of any general confectionery company in Canada, and the increase in these rates will affect us directly the most. This increase is further compounded by the 12 per cent Federal Sales Tax which is applied to candy. "Inward Freight" a direct cost of production, is subject to this tax thus compounding the company's freight disadvantage.

SUMMARY

The new non-carload freight rate structure should be reconsidered as it puts the Ganong company at a competitive disadvantage in his

home market of the Atlantic Provinces and Eastern Quebec.

This increase in freight charges and ensuing deterioration of the competitive situation is a major consideration in future planning of capital expenditures and leads to the possibility of relocating outside of the Atlantic Provinces.

Dated at Saint John, N.B. on the 4th day of March, 1968.

Respectfully submitted

GAGNON BROS. LIMITED  
R. Whidden Ganong  
President.

APPENDIX 1

1967 AUGUST RAIL SHIPMENTS L.C.L. COMPARED TO NEW NON-CARLOAD RATES

No.	Station	Lbs.	New Rates	Old Rates	No.	Station	Lbs.	New Rates	Old Rates
1	Tracadie.....	760	15.96	9.88	28	Campbellton.....	590	13.33	9.03
2	B'water.....	490	10.88	8.23	29	Campbellton.....	102 (3)	4.30	2.03
3	".....	445	9.88	7.54	30	Campbellton.....	87 (2)	4.10	2.00
4	Liverpool.....	240 (8)	6.30	4.17	31	Campbellton.....	78 (2)	4.10	1.98
5	Bathurst.....	1,210	23.11	16.45	32	Campbellton.....	130 (5)	5.50	2.10
6	Sydney.....	150 (10)	6.70	2.75	33	B'water.....	562	11.80	9.41
7	Charlottetown.....	2,380	45.70	31.65	34	N. Sydney.....	618	17.06	11.34
8	Sydney.....	626	17.97	11.52	35	Sydney.....	300	9.12	5.49
9	Dalhousie.....	155 (17)	7.20	2.44	36	Sydney.....	102 (2)	5.10	2.03
10	Chatham.....	317	6.47	3.83	37	Sydney.....	428	13.32	7.41
11	Dalhousie.....	110 (6)	4.90	2.05	38	Sydney.....	130 (3)	5.30	2.38
12	Tracadie.....	110 (7)	4.90	2.05	39	Sydney.....	339	10.31	6.22
13	Tracadie.....	171 (11)	6.40	2.60	40	Stephenville.....	790	25.36	15.40
14	Tatamogouchel.....	135 (7)	5.10	2.34	41	Port Aux Basque....	370	11.69	8.50
15	Campbellton.....	137 (3)	4.30	2.27	42	S'ville.....	740	23.75	14.43
16	Campbellton.....	150 (3)	4.30	2.30	43	S'ville.....	350	11.90	7.68
17	Campbellton.....	190 (12)	6.85	2.91	44	C'Brook.....	340	11.97	7.51
18	Campbellton.....	655	14.80	10.09	45	Quebec.....	950	18.43	14.73
19	Campbellton.....	120 (3)	4.30	2.08	46	C'Brook.....	630	20.92	12.38
20	Dalhousie.....	65 (1)	3.75	1.95	47	C'Brook.....	2,760	79.49	53.82
21	Dalhousie.....	200 (16)	7.20	3.06	48	Matane.....	150 (13)	6.50	4.33
22	Summerside.....	241 (5)	6.25	3.26	49	Riv. du Loup.....	160 (14)	6.66	3.58
23	Charlottetown.....	1,270	26.16	17.27	50	C'Brook.....	1,340	40.60	26.13
24	Shediac.....	46 (1)	3.45	1.91	51	C'Brook.....	600	19.92	11.88
25	Shediac.....	88 (2)	3.65	2.00	52	Trois Pistoles.....	270 (24)	7.20	6.26
26	Shediac.....	62 (1)	3.45	1.94	53	Rimouski.....	340	8.16	6.12
27	Dalhousie.....	85 (2)	4.10	2.00	54	Quebec.....	650	12.61	10.08

( ) Shows number of cartons involved in shipments under 300 lbs. This list shows the first 54 shipments in August out of total non-carload shipments of 242 orders for the month.

## APPENDIX A-62

A BRIEF TO  
THE PARLIAMENTARY COMMITTEE  
ON TRANSPORTATION FROM  
McCain Foods Limited

Our Company, McCain Foods Limited, is eleven years old. We are the largest processor of frozen potato products in Canada, indeed we are one of the largest potato processors in the world. Our products are sold across Canada and we export substantial quantities of products to Europe, the Caribbean, and Australia.

Our Company directly employs about 950 people, and we have about another 500 employees employed in various affiliated and associated companies. We are the largest buyer of potatoes in New Brunswick, and we consume a substantial share of the entire New Brunswick potato crop.

The matter of freight rates, both present and future, is of great interest to us, because nearly all our sales are outside the Province of New Brunswick, and our business cannot exist if we are not competitive in Ontario and Quebec.

80 per cent of our business is done east of the Ontario/Manitoba border, and this movement is almost entirely by truck. We supply the Prairie Provinces and British Columbia by rail.

This Brief will discuss, principally, that 80 per cent of our sales which is now handled by motor transport. Our penetration in Western Canada has not reached the National level, because we are not able to offer truck delivery, since the Motor Transport Industry cannot be competitive, it seems, on hauls of this distance.

1. Our customers require delivery by truck. Most do not have railroad sidings and a large number buy part truckloads, and serving them, in our opinion, is not practical by any other method of transport than road transport.

2. Over the years, we have been plagued by a shortage of good refrigerated vehicles to get our goods to market. On many occasions, our

business has suffered because of poor service. In short, there has not been enough good refrigerated trucks willing and able to carry our goods at rates we felt we could afford to pay. This position has improved in the last year, but we are still straining our various carriers' capacity to handle our goods.

3. We, our customers, and various government authorities, are getting more and more concerned with the arrival temperature of frozen goods. This problem is serious enough in itself, but there may well be government action in forcing good holding temperatures at all times, as is now in effect in the case of frozen fish. To hold correct temperatures, modern equipment is essential.

4. We have recently accepted a small rate increase, the first in our history. We have vigorously resisted higher rates and we have been able to "hold the line" by loading our carriers' rigs to capacity by loading vehicles as and when offered around the clock seven days per week and by assisting our carriers in obtaining return loads to our area. We have done everything possible, with the exception of paying higher rates to help cut our carriers' costs, so that they could maintain their rates to us.

However, we are under no illusion about the present situation, and we know that if we are to have sufficient, good quality, refrigerated trailers offered us, allowing us to give the service our customers demand, that we must, in the near future, pay higher rates. We don't think the road carriers can "stretch things" another inch.

It is for this reason, that we respectfully petition you to recommend to the Government of Canada the application of subventions, as laid out in the MFRA, to the Motor Transport Industry.

The MFRA makes an important and necessary contribution to the economy of the Maritimes. The reasons for its enactment are well



known, but the spirit of the Act is not being carried out. The Act was intended to assist products from the Maritimes to be sold both inside the Maritimes and across Canada at prices more competitive than they would have been, had the shipper been obliged to pay the total freight cost. The purpose of the Act and is sound, but it cannot accomplish its purpose today unless the Motor Transport Industry is allowed to participate equally with the railroads.

The people who enacted the MFRA were probably not much worried about the railroads, but rather were concerned with the competitive position and economic well-being of the Atlantic area. Is this still not the case? Is there less reason today for carrying out the intent of the MFRA? Surely not. And, surely, the full affect of the MFRA cannot accrue to the advantage of Eastern Canada without including other modes of transport.

How will we at McCain Foods and other shippers be affected if the provisions of the MFRA are extended to the Road Transport Industry?

We will immediately gain lower rates than we presently have, although we would not expect that the entire subvention would revert to us. We know that our carriers need more and better equipment and that they must have a better return on capital in order to accomplish this. We would then look for

the Motor Transport Industry to expand enormously with the large efficient operators offering the kind of service and the kind of rates that will substantially improve the Maritime shippers' competitive position in Central Canada.

Gentlemen, the time to act is now. We don't suggest that subventions to the Road Transport Industry will cure the economic troubles of the Maritimes, but it will help and it will help substantially.

We say to you, in the most friendly terms, that some of the policies of the Government of Canada, such as its National Monetary policy, are not good policies for the Maritime Provinces. The problem of economic stagnation is no less acute to us than the problem of linguistic rights to some of our sister provinces, and we ask that they be considered in the same spirit of accomodation.

The extension of subsidy to the Motor Transport industry on the same basis as is now paid to the railroads is a progressive, positive, and genuinely practical step in encouraging the economic growth of the Eastern Provinces. We respectfully petition your vigorous support of legislation to accomplish this aim.

February 12, 1968

McCain Foods Limited  
Florenceville, N. B.

## APPENDIX A-63

ATLANTIC PROVINCES SOFT DRINK  
ASSOCIATION

## BRIEF TO

THE HOUSE OF COMMONS STANDING  
COMMITTEE ON TRANSPORT AND  
COMMUNICATIONS1. *Atlantic Provinces Soft Drink Association*

The Association represents nearly all bottlers of soft drinks in the Atlantic Provinces. Each of its thirty-seven members manufactures and distributes soft drinks and they collectively employ rather more than 1000 people on a year round basis, and perhaps 300-400 more during the summer months.

2. *The Problem*

The Association is generally concerned about recent freight rate increases which bear heavily on the costs of obtaining beverage supplies, since its containers and raw materials—other than sugar, water, and carbon dioxide—are all imported from Quebec and Ontario. For example, freight on glass bottles from Montreal to the Atlantic Provinces costs from 15 per cent to 20 per cent of the bottle cost.

The Association is particularly concerned however, about the effect upon the Maritimes beverage industry of the present railway rates structure which favours the transportation of finished bottled goods from Montreal to Moncton, Saint John, Fredericton, Charlottetown, Halifax and Sydney.

It must be pointed out that so long as beverages were bottled only in returnable bottles, the return freight on the empty bottles and the higher freight on the full bottles (returnable glass bottles are heavier) together represented a prohibitive cost to the Montreal bottlers and all bottled beverages sold in the Maritimes were bottled in the Maritimes. But the introduction of non-returnable bottles, coupled with the availability of attractive commodity freight rates for beverages, has

opened the Maritimes market to Montreal bottlers.

For obvious reasons, no accurate information is available in regard to the volume of goods being shipped to the Maritimes by Montreal bottlers, but it is believed now to be in excess of 150,000 cases of family size beverages (twelve bottles per case) on an annual basis.

This represents a gross revenue loss to Maritime bottlers of over \$400,000.

3. *Why Maritimes Bottlers are losing Sales*

The Maritimes bottlers cannot meet the price at which the Montreal bottlers can sell because:

(a) A company which produces say, 5,000,000 cases per year for its local market, can produce an additional 50,000 cases at negligible cost.

(b) The Montreal bottlers enjoy the advantage of the "frozen" non-competitive commodity rates.

(c) Freight costs are an important element in setting Maritimes selling prices whereas there are only minor freight costs to be directly borne by Montreal bottlers. The effect of this is further to inflate Maritimes prices because of the incidence of Federal Sales Tax.

4. *The Effect of the Non-Competitive Commodity Rates.*

The current rail rates per 100 pounds of finished beverages from Montreal to the principal centres in the Maritimes are shown

below, together with the corresponding competitive rates for empty glass containers:

	Finished Beverages Minimum Weight 50,000 lb.	Empty Glass Bottles Minimum Weight 30,000 lb.	Empty Glass Bottles Minimum Weight 50,000 lb.
Saint John .....	72¢	\$1.04	89¢
Fredericton .....	72¢	1.04	89¢
Moncton .....	72¢	1.04	89¢
Charlottetown .....	76¢	1.12	\$1.09
Halifax .....	76¢	1.12	1.09
Sydney .....	78¢	1.18	1.12

It will be observed that the rates for empty bottles range from 24 per cent to 44 per cent higher than for full bottles for the same minimum weight, and from 44 per cent to 51 per cent higher for 30,000 pound loads of empty bottles. But it should be observed that whereas the Montreal bottler has to ship only some 1300 cases of full bottles to meet the 50,000 pound rate, the Maritimes bottler would have to order 3360 cases of empty bottles to enable him to enjoy the same rate. In the limited Maritimes market, it is not practicable for one bottler to order in this quantity.

In order to assess the effect of the non-competitive rates, we have calculated the freight charges for delivering a nominal load of 100 gross (1200 cases) of finished beverages to the five principal cities in the Maritimes, and the comparable freight charges for quantities of empty bottles, bottle caps, and sugar required for the local manufacture of 100 gross of beverages. Our calculations show—see attached Appendix I—that there is a freight advantage of 11¢/12¢ per case in favour of the Maritime bottler.

This advantage evidently does not offset the productivity factor referred to in 3(a). Indeed one New Brunswick bottler has informed the Association that whereas a national soft drink company was paying some \$30,000 per year to have its beverages produced locally in returnable bottles, this national company now finds it more economic to produce these same beverages in Montreal in non-returnable bottles, and to ship the finished beverages to the Maritimes.

But it is pertinent to observe that if the finished beverages were charged at the empty bottle freight rates, the freight advantage to the Maritimes bottler would be about 19 cents per case in New Brunswick and 25 cents per case in Nova Scotia.

Since the commodity rate on finished beverages is a “frozen” non-competitive rate, it seem reasonable to deduce that its effect is to give the Montreal bottlers a subsidy varying from about 7 cents to a maximum of 14 cents per case of beverages.

5. Recent Distortion of the Maritimes Competitive Relationship

It is significant to note that under the provisions of Section 335 of the Railway Act, the non-competitive commodity rates covering the movement of finished beverages into the Maritimes are “frozen” for a two year period which commenced on 23rd March, 1967, whereas the railways have elected to publish higher rates on empty glass bottles as so called “competitive” rates, with the result that the rates on empty bottles are outside the rate freeze provisions of the Railway Act.

As a result of the provisions of Section 335 of the Railway Act, and due also to the passage of the Freight Rates Reduction Act, which had the effect of reducing the 17 per cent freight rate increase of 1st December, 1958 to 8 per cent on non-competitive rates, and the subsequent policy of the Federal Government to maintain that level pending consideration of the report of the 1960 Royal Commission on Transportation, the non-competitive commodity rates on finished beverages from Montreal to the Maritimes have not increased during the past nine years.

So, on the one hand, the rates on finished beverages are lower to-day than on December 1, 1958 by virtue of the substitution of the 8 per cent increase in lieu of the 17 per cent increase, and on the other hand, the so called competitive rates of empty bottles were increased on October 10, 1966 by 10 per cent, and on September 5, 1967 by a further 3 per



cent/6 per cent. The relative competitive position between Montreal and Maritimes bottlers of beverages in the Maritimes markets has thus been distorted in favour of the former. Appendix II showing a comparison of the rates on finished beverages and empty bottles from Montreal to Saint John and Halifax, illustrates the impact of these recent freight increases on empty bottles.

#### 6. *Further Observations*

Appendix I shows the freight basis and rates which are commonly used by bottlers in the Maritimes to bring in their supplies of containers and the principal raw materials. It will be appreciated that the quantities involved, when converted to finished goods, are much in excess of the minimum quantity of finished goods which must be shipped from Montreal in order to obtain the best freight rate. The Maritimes bottler is thus usually penalized with an inventory in excess of his current requirements, but his alternative would be to ship less than car-load lots—which would be prohibitively expensive.

#### 7. *Sales Tax*

Freight costs are, of course reflected in higher selling prices for soft drinks in the Maritimes as compared with Quebec and Ontario. In the particular package under study, selling prices must include in the worst case (Sydney) 19.2 cents per case in respect of freight, and since Federal Sales Tax is paya-

ble by each bottler on his wholesale selling prices, it can be shown that the Maritimes bottler—few of whom are selling family size disposable bottled goods—would have to pay 24 cents per case in Federal Sales Tax whereas his Montreal competitor sells on an F.O.B. Montreal basis and pays only 20 cents per case.

#### 8. *Conclusion*

The 37 Maritimes bottlers of soft drinks operating over 40 small plants, are highly vulnerable to competition from the large bottlers in Quebec because of the advent of non-returnable bottles and the ready acceptance of this disposable package by the grocery supermarkets. This vulnerability is increased by the present freight rates structure and unless the competitive position of Maritimes bottlers is restored through freight rates changes, the erosion of their businesses—of which family size non-returnable bottle imports from Quebec is only one symptom—will continue, and the viability of another Maritimes industry will be in doubt.

The Association therefore recommends the following alternative solutions to its problem:—

- (a) Cancel the special rate for beverages and extend the tariff for empty bottles to cover finished beverages, or
- (b) Introduce carload rates for empty bottles at the rates now being charged for finished beverages.

APPENDIX I

COMPARISON OF FREIGHT COSTS FOR NON-RETURNABLE FAMILY SIZE BEVERAGES BOTTLED IN MONTREAL AND BOTTLED IN THE MARITIMES

Freight Basis	Description of Goods	Quantity	Weight	Freight Per 100 Pounds	Saint John	Fredericton	Moncton	Charlottetown	Halifax	Sydney
					\$	\$	\$	\$	\$	\$
1.	50,000 lb. car.....	Finished Beverages..	100 gross	46,800 lbs	72/78¢	336.96	336.96	336.96	355.68	365.04
2.	30,000 lb. car.....	Empty Bottles.....	100 gross	18,000 lbs.	\$1.04/1.18	187.20	187.20	201.60	201.60	212.40
3.	100 lb. min.....	Bottle Caps.....	100 gross	86 lb.	1.79/1.95	1.55	1.55	1.62	1.62	1.69
4.	24,000 lb. car.....	Sugar.....	32 bags	3,200 lb.	26/70¢	3.20	8.32	10.24	12.80	16.00
5.		Total (2, 3 & 4).....			191.95	107.07	198.99	216.02	225.62	230.09
6.		Freight saving to Maritime Bottler (1 less 5).....			145.01	139.89	137.97	139.66	130.06	134.95
7.		Equivalent saving per case of 12 bottles (cents).....			12.1¢	11.7¢	11.5¢	11.6¢	10.8¢	11.2¢

- NOTES: 1. A sugar refinery is located in Saint John, so only local delivery is involved in Saint John.  
2. Maritimes bottlers pay about the same prices as Montreal bottlers for their bottles, caps, sugar, etc., but suppliers deliver free of charge to their Montreal customers.  
3. Many small bottlers cannot buy sugar in 24,000 lb loads and are obliged to buy from local wholesalers at much higher than refinery prices.  
4. 100 gross of bottles is the equivalent of 1,200 cases.

APPENDIX II

STATEMENT SHOWING A COMPARISON OF THE CARLOAD RAIL RATES COVERING SOFT DRINK BEVERAGES WITH THE RATES ON EMPTY BOTTLES  
FROM MONTREAL, QUEBEC TO SAINT JOHN, N.B. AND HALIFAX, N.S. DURING THE PERIOD OCTOBER 9, 1966 TO THE PRESENT

Date	Nature of Change	Beverages			Empty Bottles—Minimum Weights			Rate Disadvantage Against Empty Bottles	
		Minimum	Weights		30,000 lb	40,000 lb	50,000 lb	Minimum	Maximum
		(Cents per 100 pounds)							
		To SAINT JOHN, N.B.							
Oct. 9/66	Prior to 10% increase in competitive rates.....	72	91		85½	81	77	5	19
Oct. 10/66	10% increase in competitive rates.....	72	100		94	89	85	13	28
Sept. 5/67	3 to 6% increase in competitive rates.....	72	104		98	93	89	17	32
		To HALIFAX, N.S.							
Oct. 9/66	Prior to 10% increase in competitive rates.....	76	112		106½	100	95	19	36
Oct. 10/66	10% increase in competitive rates.....	76	112		—	110	105	29	36
Sept. 5/67	3 to 6% increase in competitive rates.....	76	112		—	—	109	33	36

TARIFF AUTHORITY—Beverages C.N. Rys Tariff C.M. 130-1, C.T.C. (F) E4060  
Empty Bottles C.N. Rys Tariff C.M. 195, C.T.C. (F) E 2115 and C.F.A. Tariff 6-A, C.T.C. (F) E 1640.



## APPENDIX III

MEMBERS OF THE ATLANTIC  
PROVINCES SOFT DRINK  
ASSOCIATION

## NEW BRUNSWICK

Ahier & Woods, Limited,  
22 Ramsay Street,  
Campbellton, N.B.

Nadeau's Beverages, Ltd.  
18 Union Street,  
Campbellton, N.B.

Cassidy's Beverages, Limited,  
63 Church Street,  
Chatham, N.B.

Gorham Beverages, Limited,  
361 Victoria Street,  
Fredericton, N.B.

H. F. Tennant, Limited,  
P.O. Box 242,  
Moncton, N.B.

The International Drug Co. Ltd.  
17 King Street, St. Stephen, N.B.

Woodstock Bottling Works,  
Cedar Street, Woodstock, N.B.

C. & S. Bottling Works Ltd.  
392 Demeresque Street,  
Bathurst, N.B.

Gallivan Beverages, Limited,  
P.O. Box 35, Newcastle, N.B.

Grand Falls Bottling Works,  
P.O. Box 770,  
Grand Falls, N.B.

Saint John Beverages, Limited,  
Chesley Street, Saint John, N.B.

Seven-Up Sussex Limited,  
140 Clark Street,  
Fredericton, N.B.

Seven-Up Sussex Limited,  
Baig Blvd., Moncton, N.B.

Seven-Up Sussex Limited,  
Barrack Green, Saint John, N.B.

City Beverages Limited,  
Water Street, Campbellton, N.B.

Crystal Beverages Limited,  
Moncton, N.B.

## NOVA SCOTIA

Chapman Bros. Limited,  
20 Station Street,  
Amherst, N.S.

H. F. Tennant Limited,  
9 Havelock Street,  
Amherst, N.S.

Emeneau's Beverages, Limited,  
677 LaHave Street,  
Bridgewater, N.S.

Morris Beverages, Limited,  
230 Wyse Road,  
Dartmouth, N.S.

McKinley Beverages, Limited,  
263 Brookside Street,  
Glace Bay, N.S.

Canada Dry Bottling Company Ltd.,  
P.O. Box 340,  
Halifax, N.S.

Coca Cola Limited,  
6034 Lady Hammond Road,  
Halifax, N.S.

McLeans Beverages Limited,  
Westville Road,  
New Glasgow, N.S.

Havelock Home Bottling Co. Ltd.  
P.O. Box 998,  
Sydney, N.S.

Ideal Beverages Limited,  
500 George Street,  
Sydney, N.S.

Isle Royale Beverage Ltd.  
245 Welton Street,  
Sydney, N.S.

Chapman Beverages, Ltd.  
1100 Prince Street,  
Truro, N.S.

Jones Bottling Co. Ltd.,  
Weymouth, N.S.

Weymouth Springs Bottling Works,  
P.O. Box 31,  
Weymouth, N.S.

Yarmouth Beverages, Limited,  
Yarmouth, N.S.

Astoria Beverages,  
Liverpool, N.S.

Seven-Up Sussex Limited,  
5539 Bloomfield Street,  
Halifax, N.S.

Seven-Up Sussex Limited,  
55 Massey Drive,  
Sydney, N.S.

Seven-Up Sussex Limited,  
59 Prospect Street,  
New Glasgow, N.S.

Seven-Up Sussex Limited,  
Brickyard Road,  
Bridgetown, N.S.

Hi-Cap Beverages Limited,  
Maynard Street, Halifax, N.S.

#### PRINCE EDWARD ISLAND

J. T. Morris Limited,  
96 Kensington Road,  
Charlottetown, P.E.I.

Seven-Up Sussex Limited,  
Charlottetown, P.E.I.

Seaman Beverages, Limited,  
Charlottetown, P.E.I.

#### MAGDALEN ISLANDS, P.Q.

W. Grant Clark,  
P.O. Box 193,  
Grindstone, P.Q.

#### NEWFOUNDLAND

Gaden's (Central) Limited  
Bishop's Falls, Newfoundland

Browning-Harvey Limited,  
P.O. Box 128,  
Cornerbrook, Newfoundland

Bond Beverages, Limited,  
72B High Street,  
Grand Falls, Newfoundland

Browning Harvey Limited,  
Rope Walk Lane,  
St. John's, Newfoundland

Purity Factories, Limited,  
Blackmarsh Road,  
St. John's, Newfoundland

Union Aerated Water Company,  
63 Fresh Water Road,  
St. John's, Newfoundland

Gadens (West) Limited,  
Mount Bernard Road,  
Cornerbrook, Newfoundland

Gadens Limited,  
O'Leary Avenue,  
St. John's, Newfoundland

## APPENDIX A-64

BRIEF by

HAWKER SIDDELEY CANADA LTD

Trenton N.S.

February 14th, 1968.

Gentlemen:

This brief is presented on behalf of Hawker Siddeley Canada Limited, Trenton Works, Trenton, N.S., to reiterate the penalty our plant endures, being situated in Nova Scotia and competing against our counterparts in central Canada.

Our prime product is the manufacture of railroad freight cars, with secondary products of railroad car parts, viz. axles, wheel pairs, brake beams, etc. and forgings.

When manufacturing railroad freight cars, we find that our freight cost per unit is approximately  $4\frac{1}{2}\%$ , whereas our counterparts in central Canada are paying  $1\frac{1}{4}\%$  to  $1\frac{1}{2}\%$ . The differential is attributed to many factors. With all due respect to the purpose of the Maritime Freight Rate Act and knowing the effect it has on the economy and survival of the Maritime Provinces, it is of little value to us in the manufacture of railway freight cars. Our freight charges are based on the east bound movement only.

As we are still in the monopolistic era of transportation in the Maritimes and competition with the railroad is non-existent. We are captive and have to rely on the goodwill of the railroad for relief, which I might add has been fair considering the basis for negotiation, which our competition enjoys, is absent.

Surely there are a large percentage of manufacturers and distributors in the Maritimes who are in the same position as we are. This would encompass all manufacturers who sell to the local market, retailers and wholesalers and many more. This is borne out by the fact that the salaries in the Maritimes are the lowest in Canada, with the cost of living the highest. This is detrimental to a healthy economy. To elaborate more, this extra freight cost has to be borne in our cost structure. With labour endeavouring to equalize wage scales with central Canada, the

problem of absorbing freight costs becomes more acute. Any relief on east bound freight costs will most certainly improve our position and is imperative to the future progress of the Maritime Provinces. I recommend this be reviewed.

The importance of the Maritime Freight Rates Act is evident in the marketing of our other products. The railway car parts are shipped in carload and less than carload quantities. Without the benefit of the M.F.R.A. Rates, this business would be non-existent. On our less than carload quantities, the burden of the new non-carload rates would be non-remunerative and thus discontinued.

Our forge operation is marginal. Many factors are involved with freight standing out as one of the significant inferences. The majority of these shipments are in the middle weight range from 3,000 to 15,000 lbs. and our market area is from coast to coast. At the time of comparing our freight costs last spring against our competitors, we made changes utilizing the existing rate structure at that time with improved shipping practices, reducing our cost.

Forgings under the less than carload class tariff takes a Class 55 rating as authorized in Iron and Steel Tariff Canadian National Railway, CI-79-2. With the coming into existence of a freight rate increase, as authorized in Canadian Freight Association Tariff No. 85, and the elimination of pick up and delivery service, further complicated our position but with ingenuity on our part, we were able to partially overcome this penalty.

With the inauguration of the new non-carload rates as authorized in Express Traffic Association Tariff 100, the freight on this product rose to an average increase of 125% to 200%, dependent on weight. This would certainly put our forging operation in a very precarious position if allowed to become effective in the Maritimes.



*Summary:*

I can only see where the future progress of the Maritime Provinces will stagnate unless the Committee recommends a transportation policy within a separate framework from the National policy. Drastic steps must be taken to encourage new industry and develop the older ones, otherwise this situation will prevail as in the past. The Provinces have taken the bull by the horns and have done a magnificent job, but they are limited. In my humble opinion the problem is wholly transportation and with effective measures, would see

a brighter future for the Maritimes which will certainly improve National unity and be an asset to Canada economically. Your findings will be looked forward to with great interest and I only hope that you see what others have failed to vision. The future progress of the Maritimes is in your hands.

A. W. Owen,  
Traffic Manager,  
Hawker Siddeley Canada Ltd.,  
Trenton Works.

## APPENDIX A-65

## A BRIEF

## PRESENTED BY

THE GOVERNMENT OF THE  
PROVINCE OF NEW BRUNSWICK

to the

STANDING COMMITTEE ON  
TRANSPORT AND COMMUNICATIONS

Honourable Robert J. Higgins  
Minister of Economic Growth  
Province of New Brunswick  
FREDERICTON, N.B.

March 14th, 1968

## REVISED

The Government of New Brunswick welcomes this opportunity of presenting its views and comments to the Standing Committee on Transport and Communications. Your Committee is no doubt aware that the Minister of Transport asked the Premiers of the Atlantic Provinces and the Maritimes Transportation Commission for proposals and recommendations for a regional transportation policy for the Atlantic Provinces. In January of this year a transportation "Task Force" was created by the Atlantic Provinces and is presently working on the problem. Since the work of this Task Force is presently continuing, the Government of New Brunswick is unable to recommend specific policies towards the region's transportation problems at this time. However, the Government has committed itself to produce an integrated transportation policy recommendation in the near future.

Transportation must be more than a purely dollars and cents proposition for Canada. Transportation has made Canada and keeps it united. It enables all of Canada's regions to share in an expanding economy. Transportation therefore is the vehicle which enables industry located in distant parts of our country to develop through reasonable access to the concentrated central Canadian market. Such a policy must be developed for the Atlantic area if we are to be effective partners in our Canadian Confederation.

Speaking in Halifax, Nova Scotia, on Monday, September 12, 1864, Sir John A. MacDonald said:

"It cannot be denied that the railroad as a commercial enterprise would be of comparatively little commercial advantage to the people of Canada"...In the case of a union this Railway must be a national work, which Canada will cheerfully contribute to the utmost extent in order to make that important link without which no political connection can be complete".

For these reasons, our transportation links were never intended to be an instrument for profit. If profit had been the sole criteria, many of Canada's railroads, airports and seaways would not have been constructed. Certainly, the St. Lawrence Seaway would not be what it is today. Canada has continuously invested in the development of our national economy through subsidization of much of our transportation system through subsidized freight rates, the operation of uneconomic lines, the construction of seaways and the Trans-Canada Highway.

Today, as in 1867, transportation is still very much an issue. While modes of transportation have improved, the same geographic conditions and transportation principles exist. Canada has expanded and prospered through the use of transportation as a tool for economic development and the creation of regional transportation policies within the national context. Through the years, Canadians have attained a higher standard of living but regional disparities still exist. The Atlantic area has not attained the standard of living enjoyed by much of our population in the

more industrialized areas of Canada. Canada requires a regional transportation policy for the Atlantic area, to permit us to expand and enjoy the standard of living enjoyed by other Canadians. Our manufacturers and producers have historic rights to develop and expand by access into that market. While the modes of transportation have changed over the years, certainly the need remains.

#### MARITIMES FREIGHT RATE ACT—SECTION 7

"The purpose of this Act is to give certain statutory advantages in rates to persons and industries in the three Provinces of New Brunswick, Nova Scotia and Prince Edward Island, and in addition upon lines in the Province of Quebec mentioned in Section 2 together hereinafter called "select territory", accordingly the Board shall not approve nor allow any tariffs that may destroy or prejudicially affect such advantages in favour of persons or industries located elsewhere than in such select territory." R.S., C.79, S.8.

We do not intend to use this brief to provide you with a history of developments since the Act in 1927. Suffice to say, the Atlantic Provinces traffic did not benefit to the same degree from competitive rate reductions. By the same measure it was unable to escape to the same extent the full application of post-war rate increases. The relative advantages intended has therefore not been maintained but this does not in any way imply that the intent of the Act is no longer valid. Any revision of this Act must be consistent with the historical nature of our transportation policy, namely, to afford our manufacturers and producers access to the larger markets instead of the restricted local market, and transportation assistance to *all carriers* to remove the discriminatory features of the present Act, where assistance is confined to rail traffic only. Removal of this discriminatory aspect respecting rail traffic only would create healthy competition thereby encouraging improved service and rates.

#### NATIONAL TRANSPORTATION ACT

In the Spring of 1967, Canada achieved its "new" look in transportation in the form of the National Transportation Act. The goals of this new look are very closely stated in the first Section of the Act.

"It is hereby declared that an economical, efficient, adequate transportation system

making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation and to maintain the economic well-being and growth of Canada..."

In achieving this objective, the Act states that due regard must be given, "to national policies and to legal and constitutional requirements".

The Government of New Brunswick agrees with the declaration of goals. Our transportation must be economic, efficient and adequate. This system must make use of *all* available modes of transportation. The total cost of all the available modes should be as low as possible.

However, we must clearly state this declaration must be placed in the historic Canadian context. And the words, "economic and efficient" must be read together with "adequate" and again adequacy must relate to "economic well-being"... "of Canada". Sub-clause (ii) of Clause (d) of the first section referred to above, states that each mode of transport may impose tolls or make conditions as long as they do not constitute "an undue obstacle to the interchange of commodities between points in Canada or unreasonable discouragement to the development of primary or secondary industries or to the export trade in or from any region of Canada or to the movement of commodities through Canadian ports;...".

In other words transportation must be "adequate" to fulfil an east-west concept without regard to a purely profitable commercial operation. If the tolls or conditions are an "undue obstacle" or "unreasonable discouragement" to trade or economic development, these tolls and conditions must be related to the principles enunciated in the first part of Section I. Consistent with the principle so enunciated, toll and condition changes must be related to the compensatory concept contained in the new legislation. The effect of this is to generate the much needed competition between all modes of transportation. If, despite this competition there is still an "undue obstacle" or unreasonable discouragement" to trade or economic development in the Atlantic Region, then proper and adequate consideration on a policy basis must be given to recognition of a problem that cannot be solved by competition.



The Atlantic Provinces have never been included in a national policy but have been accorded certain historic rights aimed at reducing the effect of our isolation from the major Canadian markets. The transport policies embodied in the National Transportation Act, stressing the use of forces of competition as a means of reflecting the cost of providing the services reflect the cost of the long haul. If the rates reflect the cost of the long haul to the markets, the cost of moving freight from the Atlantic area will increase substantially and be in conflict with the objectives of the National Transportation Act as heretofore set forth unless adequate recognition is made of the principles set out in the first part of Section I.

The Atlantic Provinces have a relatively small population dispersed throughout the region. Urban centres are relatively small and few in number. Industries are limited and dispersed. But most important, many modes of transportation are unavailable or inadequate. Long distance, few people and industries, and small volume have hindered the development of new modes of transportation.

The National Transportation Act is the embodiment of a transportation policy for an industrialized and urbanized society. Its stress on competition, compensatory rates, efficiency and adequacy meets the needs for the more advanced regions of Canada. However, it is not appropriate at this time for the needs of the Atlantic Region.

#### NON-CARLOAD RATES

Recently, a number of changes have been made by the railways in their non-carload tariffs. The new tolls and conditions are an undue obstacle to the interchange of commodities between points in the Atlantic region and an unreasonable discouragement to the development of primary and secondary industries in our region.

These are serious submissions and should not, and are not, made lightly.

#### FIRST:

On May 6, 1967, an approximate six per cent increase was effected on all non-carload rates. On September 5, 1967, the former LCL and express rules and rates were amalgamated. Coupled with this, the provision of pick-up and delivery service in conjunction with the LCL competitive rates were cancelled entirely. This eliminated the additional

benefits to LCL shippers who, as recently as May 6, were subjected to the six per cent increase.

One argument of our railways appears to be that this amalgamation lowered express rates and made LCL shippers pay for the benefits received. This is a tenable argument in theory, but the fact is that a further benefit to LCL shippers has been cancelled. What appears to be untenable is the effect of the arguments of the railway that even though the shipper is willing to provide his own "pick-up and delivery" at his own expense, he must forego the 20 per cent freight subsidy on intra-district shipments as well as failure to come under the former LCL rate schedule.

#### SECOND:

The present size of the production of the Atlantic Region is evidenced in the almost doubled number of LCL shipments (362 pounds per capita) as related to the rest of Canada (192 pounds per capita) (Facts DBS). When the "rate freeze" was effected, however, LCL shipments were exempted.

#### THIRD:

It is accepted by the Atlantic Region and I am sure by the members of the Committee, that secondary manufacturing and processing must be developed. Among those being developed in New Brunswick are food processing, specialized machinery, boats and canoes, appliances, and the manufacture of detergents, to name a few. The drive to encourage such entrepreneurial endeavours is now met by the new "density rule" of one cubic foot being deemed to weight ten pounds.

The combination of these factors, i.e., the approximate six per cent increase in May, the cancellation of pick-up and delivery service, the cancellation of competitive rates and the establishment of the density rule has been disastrous. These items are not theory to the Atlantic Region shippers, producers or consumers. Many firms face an uncertain future, many will not be able to expand and many will not establish in this region because of these transportation developments.

Far too many industries in far too many centres are being squeezed out of their normal markets. Many of these industries affected are in small communities. Several are our more progressive and newer industries. They

are the basis of our diversified secondary manufacturing sector, a part of our economy too long neglected in our region in the past.

It is expected that your Committee will receive representations on this subject from the Maritimes Transportation Commission, shippers and receivers, during the course of your hearing. It is not intended therefore to refer to this matter in further detail but simply direct your attention to the brief submitted to the Honourable Paul T. Hellyer on December 13, 1967, by the Maritimes Transportation Commission setting forth four specific steps or recommendations. The Government of New Brunswick endorses this submission.

In conclusion, the Government of New Brunswick has committed itself, together with the other Atlantic Provinces and the

Maritimes Transportation Commission, to produce an integrated transportation policy recommendation for the Provinces. The recent Atlantic Provinces Transportation Study has been analyzed in detail, an inter-Government transportation committee has been established and through positive effort we can achieve the integrated policy needed to help the economic progress of the Atlantic Provinces.

We realize that national policy or regional policy falls within the sole jurisdiction of the Parliament of Canada, but we hope the views of the Governments of this region will assist in the development of such policies.

We hope this background material and comments on the region's transportation problems, of necessity brief, will be beneficial to your Committee in its deliberations.

## APPENDIX A-66

## SUBMISSION

from

THE OPPOSITION MEMBERS OF THE LEGISLATIVE ASSEMBLY  
OF NEW BRUNSWICK

Transportation problems have been one of the historic economic handicaps of the whole Atlantic region. We must continue to complain because the situation continues to be chronic.

The total transportation system of this province and region must be so designed to meet the needs of the people as they are today.

Any examination of the Maritime Freight Rates Act must be concerned with all forms of transportation—railways, highways, waterways and airways, whether or not all modes of transportation were provided for in the original Act.

At present New Brunswick people, industry and businesses are significantly disturbed and aroused by failure of the Maritime Freight Rates Act and National Transportation Act to meet the present needs of the province's transportation requirements. We understand this concern.

New Brunswickers are also significantly concerned that unless the policies of the Canadian Transport Commission and the federal authority are more responsive and susceptible to changing conditions and demands in the province and region, we cannot develop economically and socially—even succeed to survive. We share this concern.

The original premise of the Maritime Freight Rates Act reflecting the National Development Policy of our Canadian federalism was an assurance to the businesses and the people of this region that products shipped to the larger Canadian markets of Quebec and Ontario would be in a competitive position on arrival; also, that costs of transportation within the region would not prohibit making a profit.

We are concerned and aroused because it is and has been evident that the present Act does not provide this same assurance to the region when looked at in the context of today and the foreseeable future.

We insist that the original premise is still economically sound in the interests of the nation, but the Act, like federal policy, has not been adapted to today's conditions in the region and, therefore, the original assurance is no longer effective. In fact, it has been completely ignored in recent freight rate changes.

The present Maritime Freight Rates Act is failing this region economically because it has not been altered to provide for modern transportation forms, such as trucks.

The present Act has also been corrupted by straight-across-the-board increases in freight rates. The result of these increases has been the elimination of the one-time advantages of the Maritime Freight Rates Act in relation to our products being competitive on arrival at the central market.

As a short-term measure, and in anticipation of the development of a comprehensive transportation system, we would advocate that the Maritime Freight Rates Act be altered now to provide the same benefits and privileges to the trucking industry as the railway companies enjoy.

We would also advocate that this committee satisfy itself that the Canadian Transport Commission is staffed with sufficiently competent people to deal with the total transportation problems of this region, and who are preferably more qualified than anyone or any agency in the region to set rates and determine policy in consultation with the provinces.

We would also advocate that the recommendations and policies of the Atlantic Provinces Transportation Task Force, *which are promised within the immediate future*, be studied and considered before any important alterations in the Maritime Freight Rates Act are made.

In the long-term interests of New Brunswick and the region and the nation, we



advocate that a total transportation policy be designed for this region which would provide for present and foreseeable needs of the people.

We are interested in and support the consideration of such proposals as the Chignecto Canal, a super airport, the Corridor Roads and Atlantic super ports. We believe that these projects can best be assessed within the context of a total transportation policy.

Our persistent and chronic transportation problems will not be solved by trivial amendments here and there in the Maritime Freight Rates Act.

In the interest of national development, it is not economically sound to consider the elimination of subsidies.

However, subsidies should be established at the minimum levels which will ensure the

development of the most efficient and comprehensive transportation system—including all modes of transport—to meet the needs of the Atlantic region.

Therefore, the predominate consideration is not one of subsidies, but, rather, one of the development of a total transportation system and the necessity of subsidies to bring this about.

In conclusion, a transportation system and the policy which establishes it, is not only vital to the movement of goods and materials to market; it is vital to the establishment and maintenance of personal travel and personal contact within the region and within the community.

Therefore, the transportation system of the Atlantic region and of New Brunswick must reflect the total needs of the society it is designed to serve.

APPENDIX A-67

BRIEF SUBMITTED

BY THE CITY OF FREDERICTON

The City of Fredericton believes that there are several problems facing the local economy with which the Committee should be concerned. This brief will be limited in scope to the consideration of some of these problems and will not attempt to delineate an overall transportation strategy for the region or for the local economy. Attention here is focused upon three problems felt to be of major importance to the citizens of this area. The first of these relates to the provisions of the Maritime Freight Rates Act, the second to the quality of passenger service presently available in the city, and the third to the problems created by the proposed consolidation by the railroads of their express and less-than-carload services. These will be treated in order.

1. *The Maritime Freight Rates Act:*

The overall objective of any national transportation policy must be transported co-ordination. By this is meant that all modes of transport should be encouraged to perform those tasks which they can perform most efficiently. Obviously, if this goal is to be achieved, then each mode of transport must operate under conditions which will allow it to achieve the fullest possible development in its own niche. The acceptance of this idea appear to have occurred only recently in Canada with the passage of the National Transportation Act. The Act notes the desirability of making use of the availability of all modes of transportation at the lowest possible cost. It states that no particular mode should be put at a competitive disadvantage through the regulatory activities of the Canadian Transportation Commission or in any other artificial manner. In short, the concept of transport co-ordination has been accepted by Statute in Canada.

Yet, in practice, this legislative ideal appears not to have gained acceptance. The terms of the Maritime Freight Rates Act would be a case in point. Under the terms of that Act, the railroads are paid a subsidy which is not available to other modes of transportation. This discriminatory subsidy would

seem to violate the principles of transport co-ordination laid down by the National Transportation Act. This is the case, because the subsidy gives to the railroads a competitive advantage which they do not naturally possess. As is pointed out in the *Atlantic Provinces Transportation Study*, it has also had undesirable side effects upon the development of alternate forms of transportation (i.e. competition for the railroads within the Atlantic region. As a consequence of this inequitable situation, we therefore recommend:

THAT THE PROVISIONS OF THE MARITIME FREIGHT RATES ACT BE IMMEDIATELY EXTENDED TO COVER ALL MODES OF TRANSPORT MOVING GOODS WITHIN SELECT TERRITORY AND FROM POINTS IN SELECT TERRITORY TO OTHER POINTS IN CANADA.

The Maritime Freight Rates Act was initially passed in order to allow Maritime producers to become more competitive in the central Canadian market. Yet, history has demonstrated that the products of the regional producer are competitive with, rather than complementary to, those produced in the country's heartland. In order to be competitive in those markets, the local producer would have to possess an absolute advantage over the central Canadian producer equal to the costs of transfer. At the same time, the regional producers have developed a substantial export market in the eastern part of the United States. It is inconsistent to offer assistance to producers in one market in the form of transportation subsidies, but to withhold these from producers selling in the other market. One could also argue that since the St. Lawrence Seaway is operated at a loss, there exists a form of transportation subsidy for those shippers making use of its facilities. From this point of view as well, the Maritime Freight Rates Act offers a discriminatory subsidy. In order to remove this discrimination, we strongly recommend:

THAT THE PROVISIONS OF THE MARITIME FREIGHT RATES ACT BE

EXTENDED IMMEDIATELY TO COVER REGIONAL EXPORTS TO THE UNITED STATES ON THAT PORTION OF THE HAUL LYING WITHIN SELECT TERRITORY (i.e. TO THE CANADA-UNITED STATES BORDER).

The National Transportation Act states in part that "each mode of transport so far as practicable carries traffic to or from any point in Canada under tolls and conditions that do not constitute an undue obstacle to the interchange of commodities between points in Canada or unreasonable discouragement to the development of primary or secondary industries or to export trade in or from any region of Canada...". Interpretation here obviously hinges upon the interpretation of the term 'undue obstacle'. It furthermore implies the acceptance of the idea that regional or national interests transcend the interest of the carriers. It suggests that if one region or several regions would be greatly disadvantaged by the implementation of the national transportation policy, there exists the obligation on the part of the federal government to deal with the problem. It is suggested that the implementation of the new noncarload rates by railroads has had adverse impacts upon the City of Fredericton and upon the region in general. It is suggested that the proposed removal of the transportation subsidy paid under the terms of the Maritime Freight Rates Act would have a similar effect. For these reasons we strongly urge:

THAT THE PROVISIONS OF THE MARITIME FREIGHT RATES ACT BE EXTENDED TO COVER THAT PART OF THE WEST TO EAST HAUL WHICH LIES WITHIN SELECT TERRITORY.

AND

THAT THE MARITIME FREIGHT RATES ACT BE RETAINED WITH THE ABOVE MODIFICATIONS AT LEAST UNTIL THE REGIONAL TASK FORCE ON TRANSPORTATION HAS REVIEWED THE EXISTING PROBLEMS AND HAS DEVELOPED AN ALTERNATE STRATEGY.

Notwithstanding the statements of the *Royal Commission on Transportation* on the intra-regional subsidy, we believe that for the sake of consistency it must be retained. Specifically, if a producer within select territory is not eligible under the Act, and his

competitor outside select territory is, then the former may be unduly injured as a consequence. To avoid this possibility, the present subsidy with respect to intra-regional shipments must be retained subject to the above-mentioned changes.

It would generally be accepted that historically, there have been prices paid for the fact of Canadian nationhood. It would also be generally accepted that the costs involved have been borne by the entire country while the benefits have accrued to particular regions. It can hardly be argued that the chief beneficiaries of the protectionist policies adopted by Canada have been Ontario and to a lesser extent Quebec. The construction of the St. Lawrence Seaway, the special provisions for the transportation of wheat and flour, and the National Oil Policy are other cases in point. It is not the purpose of the present brief to attack or defend such policies, but merely to note their instance. It is suggested that the provisions of the Maritime Freight Rates Act together with the recommendations set out above represent another necessary cost of Canadian nationhood and must be regarded as such. It is for this reason that we suggest that the Act must be retained and that the suggested modifications must be enacted.

## 2. The Question of Rail Passenger Service:

A railroad company holds itself out to perform a service of public convenience and necessity. Fredericton is the only capital City not enjoying railway passenger service. Rephrasing this statement, it may be said that the railroad company has an obligation to the public at large. Because the CNR and CPR are subsidized by a public fund. It must be admitted that the exact nature of this obligation is not difficult to define. However, with reference to its passenger service, it may be interpreted as meaning that it is not necessary for a carrier to recover all costs in the operation of a particular service. If a railroad, or any other common carrier, is to provide an adequate passenger service to the public, then there are likely to be specific parts of that service in which a loss is incurred. This applies to most commercial enterprises. Therefore, factors other than actual loss *must be considered* as relevant in the discussion of the operations of any passenger service.

The National Transportation Act is apparently aware of this duty of service. It instructs the Canadian Transportation Commission to *consider factors* other than actual



loss in determining whether a particular passenger service should be abandoned. Included in the list is the availability of an alternate mode of transportation which is not sufficient nor adequate. Presumably, such a consideration would also involve those relating to the quality aspects of the alternate modes available.

A substantial number of businessmen, citizens, faculty and students on campus of U.N.B. in the Fredericton area are deeply concerned about the lack of passenger rail service which is non-existent. The Mayor of Fredericton has repeatedly requested the two railroads concerned to provide service to this capital city. Needless to say, non-consideration has been forthcoming. It's just a dead end. Under present conditions, an individual wishing to travel by rail is forced to journey by bus or private automobile to either Fredericton Junction or McGivney Junction in order to make the rail connection. The number of complaints would indicate the bus substitute for a rail link leaves much to be desired. The attitude of both railroads is that the volume of traffic which would be generated is not sufficient to warrant an upgrading of the existing service. With this we disagree, there are now 60,000 people within a radius of twelve miles. It seems clear that the National Transportation Act should instruct the inclusion of other factors in its analysis.

The City of Fredericton strongly supported by most communities along the suggested route, requested the Canadian National Railway to divert one of its passenger trains through Sussex, Saint John and Fredericton to connect at Edmundston on the Montreal run where approximately 200,000 population exists with no rail service, the upriver communities are more isolated. The Railroad rejected this on the grounds that the low capacity route would add greatly to the time involved in the Moncton to Montreal run and thus unnecessarily inconvenience other passengers. With this we disagree, we claim equal treatment. With the large population, plus mail and express it could be more profitable than the route it presently travels. It is also requested the CPR institute a Montreal-Fredericton sleeping car service. This was rejected on the grounds that traffic volume is not sufficient to justify such a service. Air service does not provide sufficient capacity to accommodate all requests for service—many people prefer to travel by rail. It is suggested that the present volume of traffic is not an indica-

tion of the demand for the service because the alternative connection does not offer a comparable service. If the service were upgraded, then it is suggested that the traffic volume would also rise. Figures indicate that the minimum required for such a service can be obtained particularly from September to June.

We strongly urge that one of the two railroads involved immediately initiate a passenger train service to connect directly with its Montreal-Halifax run. This would involve the establishment of a railliner service from Fredericton to either Fredericton Junction or McGivney Junction or divert the McGivney train as suggested. We are willing to accept the fact that there would not be sufficient volume of traffic to justify the initiation of both connections. We further urge that the service be operated and strongly promoted similar to any other commercial enterprise. In other words if the service is to be maintained, then the volume of traffic must and can be generated over some accepted averaging period.

Summarizing, the Capital City has been discriminated against in the providing service to our City by both railroad companies. We urge consideration be given by your Committee to put the fast growing city of Fredericton back on the modern transportation map.

### 3. *The Question of Less-than-Carload Freight:*

During 1967, the railroads combined their express service with their less-than-carload service under the heading non-carload service. The new non-carload rates include door-to-door service (pick-up and delivery). Under the new system, the old type of less-than-carload service does not. As one would expect, the rates on the former are higher than on the latter. Furthermore the density rule adopted by the railroads on non-carload traffic establishes, in effect, a penalty rate on those shippers of light and bulky commodities. We suggest that the density rule of ten pounds per cubic foot is unfair to such shippers, and that a lighter density rule—of five pounds per cubic foot—is to be preferred.

There is currently an application before the Canadian Transportation Commission to permit the railroads to abandon the old type of less-than-carload service. Under the National Transportation Act, Commission approval must be obtained before such abandonment can take place.

Certain industries in the Fredericton area, and throughout the region, prefer the old type of less-than-carload service under which they themselves are responsible for loading the goods. Companies, such as the Chestnut Canoe Company, manufacturing light products with large volume would be unduly injured by the abandonment of this type of service coupled with the density rule noted above. We suggest that there is still a demand for the old type of service, and that this demand must be considered by the Canadian Transportation Commission in the abandonment proceedings. Because of the strong possibility of injury to local producers if this type of service is abandoned, we strongly urge that the Commission be instructed to consider the demand for the old type of less-than-carload service, and that if this demand is sufficient to justify the continuation of such service that the abandonment be prohibited at this time, because of the possi-

bility that the situation may change in the future, it is also recommended that the matter be reviewed at periodic intervals.

#### 4. *The Regional Task-Force on Transportation:*

As the Committee is no doubt aware, there has recently been a regional task-force established to examine the problems of transportation in the Atlantic region of Canada. Presumably, this task-force will examine many of the problems mentioned above and will attempt to devise an overall transportation strategy. It is suggested that it might well be useful for the Committee to meet with representatives of the task-force when its report is forthcoming.

WM. T. WALKER, Mayor.

City Hall,  
Fredericton, N. B.,  
February 12, 1968.

## APPENDIX A-68

Fredericton, N.B.  
February 13, 1968

Members of the Commons Transport  
Committee,  
House of Commons,  
Ottawa, Ontario.

Gentlemen:

Re: Freight Rate Increases,  
Atlantic Provinces.

May we respectfully record our protest against the extremely high freight rates applicable to the Atlantic Provinces, and submit herewith for your consideration an analysis of present freight increases as they pertain to products purchased by us.

We are wholesale distributors of construction products, with warehouses located at Fredericton, Moncton, Halifax and St. John's. The majority of our suppliers are located in Hamilton, Toronto, Brockville and Montreal.

In the attached analysis, we have selected at random eight items from our product group, and have attempted to indicate two things:

(1) That freight/express charges from Quebec and Ontario are an extremely high percentage of our actual cost at plant in Quebec and Ontario. You will note in Column 10 that this ranges up to 71.7 per cent.

(2) That the September 5th, 1967, increase in transportation charges represents very substantial increases in our *net landed costs*. This is indicated in the last column, No. 13, and you will note this ranges from 5 per cent up to 49.2 per cent.

In our analysis we have used 100-lb. rates based on shipments of one parcel only. In the

first item, for example, chimney sections weigh 23 lbs. each and would take four units to bring the weight near the 100-lb. mark. With the new railway rates, the inclusion of three additional packages would increase the rate by \$.20 per package, for a total of \$.60. We have *not* shown this in our listed express rate which would, of course, reflect still greater portions of freight relative to cost of product. The last item, Rodofill, does however include added express charges based on its cubic content.

Please note further that the rates shown are from Quebec and Ontario to Fredericton; whereas the 100-lb. express rate from Toronto to Halifax on Dehydratine Foundation Coating is \$4.60, or nearly 10 per cent more than the rate to Fredericton. The same rate to St. John's is \$5.35, or 27 per cent higher than the same rate to Fredericton.

As these items are, of course, normally purchased in larger quantities, the 100-lb. rate used in our submission is at the high extremity of cost comparison. However, the trend and rate of recent increases at both 1,000-lb. and 10,000-lb. levels can quickly be calculated from the figures shown, and will be found relatively consistent in their impact on our landed costs. Moreover, since selling prices must be predicated on the most conservative cost possibilities, the actual price increase to the consumer as the result of new freight charges is really very similar to the percentages shown in our analysis.

We trust that this submission will be of interest and assistance in your deliberations, and trust that you will not hesitate to contact us if additional information is required.

Yours very truly,

J. W. BIRD AND COMPANY LIMITED

J. W. Bird,  
President.



Product Description	Tariff No. CPAG-A Freight Classification	Shipped From	Express Rate to F'ton.		Sept. 4/67 L.C.L. Rate to F'ton	Bird Cost	Sept. 5/67 Express Charges- 100# rate	Sept. 5/67 Express Charges- % of Cost	Sept. 4/67 L.C.L. Freight Charge	Sept. 4/67 Freight- % of Cost	% Increase in Cost due to Sept. 5/67 Rate Increase
			100#	1000#							
30" Chimney Length 7" dia- meter (23# ea.).....	I 21400-(55)	Brookville	4.05	3.30	2.77	1.58	11.30/ea.	.93	.36	3.2	5.0
8S Truss Dur-o-wal Block Reinforcing (93#/500' bdl.).....	I 52900-(70)	Hamilton	4.20	3.70	3.17	2.46	20.88/bdl.	3.91	2.29	10.9	7.8
100 only 10" Form Ties (31#/c).....	I 52900-(70)	Montreal	4.00	3.10	2.56	1.79	6.20/c	1.24	.55	8.9	11.1
5 gal. Horneure Concrete Curing Compound (50#/can).....	I 71910-(70)	Toronto	4.20	3.70	3.17	2.39	6.45/ea.	2.10	1.20	18.6	14.0
Rebar Wire (100#).....	I 48410-(70)	Montreal	4.00	3.10	2.56	1.79	11.93/ea.	4.00	1.79	15.0	18.5
5 gal. Durocres Floor Sealer (50#/can).....	I 71910-(70)	Toronto	4.20	3.70	3.17	2.39	3.97/can	2.10	1.20	30.3	22.7
In-Pakt Grout (100#).....	I 17970-(55)	Thornhill	4.20	3.70	3.17	1.88	7.20/ea.	4.20	1.88	26.1	32.2
100 ft. 3"x6"x12' Rodofill Joint Filler (100#/100 ft.).....	I 9960-(70)	Montreal	5.70	3.10	2.56	1.79	7.95/c ft.	5.70	1.79	22.5	49.2
Column No. 1.	2.	3.	4.	5.	6.	7.	8.	9.	11.	12.	13.

## APPENDIX A-69

## BRIEF SUBMITTED

by the

## FREDERICTON JUNIOR CHAMBER OF COMMERCE

Dear Sirs:

I. The Junior Chamber of Commerce are an International Organization made up of Young Men of action with its basic aim to train Young Men for the Future through Leadership Training.

II. We, of the local Jaycees have watched with interest the Constitutional Meetings in Ottawa and it was interesting to hear men like Mr. Bennett and Mr. Robarts of the *have* Provinces discussing views with the Premiers of the so called *have not* Provinces (Maritimes).

III. Since the forming of Confederation we of the Maritimes have been called Lower Canadians, Poor Brothers, Weak Sisters, Welfare Provinces and so on.

IV. We believe at times the elected people in Government have honestly tried to improve our standards of living. Two examples are the Atlantic Development Board and the Atlantic Provinces Economic Council.

V. I believe we could elaborate further with regards to Confederation, the Constitution and the plight of the Maritimes in General, but Gentlemen the reason behind this letter is the Transportation problems of the Citizens of Fredericton and surrounding area. We as local Jaycees and Young Men of Action, wish to express our views on these problems and not to sound like Weak Sisters, Poor Brothers, etc., because we as Jaycees and Maritimers wish to be heard regarding our local Transportation problems and have you consider them in the manner in which they are presented. A Committee was formed and it has adopted the following recommendations for your committee to study, and possibly implement in the very near future.

*I Rail Passenger Service*

We of the Local Jaycee Unit have been working hand in hand with Mayor Wm. T.

Walker and his Council over the past two years to bring Rail Service back to the City of Fredericton.

Letters have been forwarded to the Minister of Transport, Presidents of C.N. and C.P. Railways and also to local M.P.'s, but to no avail.

Gentlemen, are you aware that the local taxpayers of Fredericton are subsidising these Railroads through Taxes to provide Passenger Services to other Cities and Towns in our Province, but we find that Fredericton is the only Capital City in the Dominion that does not have Passenger Train Service?

We have been told that a Train Service into our Capital City is not economically feasible, but gentlemen please consider the potential passengers out of 60,000 people in a radius of twelve miles.

This potential comes from two Universities, one Teachers College and the Army Base Gagetown, besides the thousands of local residents who might possibly use this service if it were to be implemented.

We as citizens of Fredericton ask you to seriously consider putting us on an equal Par with the other Capital Cities of the Dominion and ask you as our representatives to bring back to us a much needed Rail Passenger Service.

Government has gambled in the past with our tax monies, and we ask you to once again gamble for the benefit of the people of Fredericton. We sincerely believe that in the future this Rail Service would not only be economically feasible but also profitable to the Railway.

*II. Maritimes Freight Rates Act*

After reading this act we have come to the conclusion that because of this act, we in the local area are not being given the same opportunity to compete with Central Canadian Markets for our Products.

It is common fact that our products are equally competitive as to quality, as those of Central Canada, but because of the cost of transfer, it is impossible to compete in these markets.

The original idea behind this act was to allow Local Producers to become competitive in Central Canadian Markets but the way the Act now reads, the Government seems to again be discriminating against Maritimers of Constitutional Rights to be competitive.

The Railroads are a point in question, they are given a subsidy which is not available to other forms of Transportation, therefore we suggest in order to assist our local producers, we ask that these other forms of Transportation be given the same opportunity as the Railroads and in turn the local producers will have an equal chance to be competitive.

Again gentlemen, we state that we are paying our share of the bills but not reaping the dividends from these payments.

The Railroad has now implemented the Less than Carload Freight Service. The Less than Carload Service has now become very expensive and this extra expense is being paid for by the producers, who in turn has to charge it back to the consumer.

This again puts the local producer at a competitive disadvantage in the Markets he transfers his Products to.

Gentlemen we as local Jaycees, as Citizens of Fredericton, and as Maritimers are making these suggestions with the sincere belief that you will implement the Passenger Train Service, amend the Freights Rate Act and abandon the Less Than Carload Freight Service as it now stands.

Yours sincerely,

Bud Craft,  
Chairman Fredericton  
Transportation Committee.



APPENDIX A-70

BRIEF

submitted by

THE CHESTNUT CANOE COMPANY LIMITED

Fredericton, N.B.  
March 2nd, 1968.

lumbia, also economical access to the Prairie Provinces so that we can develop these markets further.

May I first extend my appreciation for the opportunity of being able to appear before you and to put before you the problems that my company has experienced since Sept. 5, 1967 and also the added problems to my company if the L.C.L. Class Rates are cancelled.

It should be noted and emphasized that according to the Dominion Bureau of Statistics report of the boating Industry in 1965, the latest report available to me at this time, there were 242 Boat Manufacturers in Canada, of which 70 manufacturers were located in the province of Ontario where 40.8 per cent of boat and canoe sales took place in 1965. 27 manufacturers were located in the province of Quebec and 78 manufacturers in the province of British Columbia. These three provinces represent a total of 175 producers of watercraft. In these three provinces is sold 82.5 per cent of all the boats and canoes sold in Canada.

These provinces represent the bulk market in Canada of boats and canoes in use today, and are directly my company's major market area representing 72.5 per cent of our total sales volume for the year ending August 31st, 1967.

I would like now to give you a breakdown in my company's sales by Province for the year ending August 31st, 1967.

	%
Ontario .....	51.3
Quebec .....	11.8
British Columbia .....	9.4
Prairie Provinces .....	5.7
Atlantic Provinces .....	18.2
Export sales make up the difference .....	3.6

It can be readily determined that we must have quick and economical access to the bulk markets of Ontario, Quebec, and British Co-

The products that we manufacture are light and bulky, and under the existing L.C.L. class rates the boat and canoe industry over the years has been penalized by having to pay 2½ to 3 times the First Class rail rates per 100 lbs. of packaged weight. This has been problem enough for us over the years, and has without question stagnated our development and growth.

Since this is the day of Truth, I must tell you what I consider to be a factual story, but, one that is rather humorous since it truly reflects the disadvantages that we in the Atlantic Region have suffered due to being at a geographical disadvantage and therefore the Rail Carrier's captive market.

A few years ago on my annual trip to Western Canada, the province of Alberta to be exact, I could not understand our loss of business in the area. In calling on one of our major accounts in Edmonton, and asking the owner why the decline in business with us, the reply was, and I quote, "We can no longer afford the freight cost from Fredericton. We are getting laid in here a 50 ft. rail car from Ontario for the price of a 40 ft. rail car from New Brunswick". So, I immediately commenced to tell the story of the Bridge Territory rates and the equalization on rail shipments.

On my return to Fredericton, I took the matter up with local representatives of the railroad, who I believe put the pressure on, and from the date the railroad afforded this advantage to my competitors until it was extended to my company one year to two years had elapsed, and the major volume of our business in Alberta was lost.

There are still boat companies in Canada not being provided these privileges unless recent application has been successful. However, after receiving the 50 ft. car privi-

lege I then notified my representative in the west that we could now compete on freight traffic. But, business conditions did not change or improve. My next trip to Western Canada calling on the same account and asking the same old question, why am I not receiving a fair share of your business, I can give you approximately the same freight rates under the Bridge Territory rates as you are getting from Ontario. The answer was "You are still behind, the railroads are now providing my Ontario suppliers with 2-40 ft. cars in lieu of a 50 ft. car".

This, Gentlemen, means 80ft. now instead of 50ft. of rail car space in length. Multiply this by the width and by the height and you will have the cubic capacity. My company now is in a worse position than before.

So, again on my return to Fredericton I took the matter up with local representatives who again investigated the matter with their principals, but, all they received in reply was denials that such a thing had ever occurred.

Pursuing this further it was well established in my mind that this was not railway convenience but practised far beyond and too frequent for this. In the meantime our market in the Prairie Provinces has declined and we, to this day, have not been able to re-establish it.

I believe that close investigation by you would reveal the facts that I have just now mentioned, and that in some instances that these cars did not arrive at the same destination, but rather one car was used in a drop shipment to a city like Calgary while the original destination was Edmonton.

In the Atlantic Provinces the railways have enjoyed us as a captive market because of inadequate truck transportation and the unwillingness of truck transports to carry our commodity and the outright refusal by two trucking firms operating out of the Maritimes to even touch boats and canoes.

With the recent diverting of traffic from rail to truck transport the following situations have developed:

Transportation of supplies into the Maritimes have been extremely slow reaching us. Consequently curtailing production and giving us additional handling of goods in production awaiting supplies for competition and generally increasing our total overall cost of production. An example of this is a shipment of supplies that we had leave Campbellford, Ont. approximately Dec. 29th and arrive in

Fredericton on Jan. 15th. Ladies and gentlemen, I suggest that a dog team could have been much faster. Another recent experience is on a shipment out of Montreal where shipments have taken anywhere from two weeks to 20 days en route, to travel a distance less than 600 miles. Also due to the volume demand on truck transportation at this time truck transporters are now increasing their rates. They can do this knowing that they are still more than competitive with rail transporters on the cube basis of calculation.

You will recall that a breakdown of my company Sales for the year ending Aug. 31st, 1967 shows a total of 81.8 per cent of total sales being shipped out of the Atlantic Region of this amount approximately 80 per cent are L.C.L. shipments.

Any hope to turn these shipments into carload lot shipments, would be remote because:

(A) Few Marine dealers in Canada can handle or sell a carload of boats or canoes in a year.

(B) Marine dealers in this country are in general financially weak and are unable to purchase and invest in a carload of our products because of lack of working capital. These dealers purchase in single units and on occasion two or three units at a time. A good many small dealers sell from a catalogue and purchase only on demand. The balance of shipments that is 20 per cent going carload, are being shipped to a warehousing service, and from there to the local market. This warehousing service is maintained to take care of the on season demand, because of the slow carrier service from here to Ontario, sometimes taking as much as 3 to 6 weeks when service should be only of a few days duration until delivery is effected.

This is not economical, as there is a duplication of handling in and out of a warehouse plus staff expense, and reshipment cost as well as cost of rental of a warehouse.

Manufacturers, located in the high volume market areas of Ontario and Quebec, and British Columbia are in general, not using rail transportation for their short hauls and near markets and therefore transportation increases will have little effect on them. These companies are operating their own trucks to service the volume markets. The trucks are operated on a breakeven basis, and the markets they service represent the bulk

of their manufacturing output and sales volume. The major part of the raw materials used are also on a short haul basis and in Ontario and Quebec, all deliveries are made by truck and often their own trucks are used on a return haul.

These people only use the rail service for distances that are not economical for them to cover by truck. It is unacceptable in my view, that these people could be considered good rail customers. Yet, they have been extended privileges unavailable to my firm whom I consider a good customer since 95 per cent of our output is carried by rail.

It should also be noted, that the increase in the freight rates, are not going to effect the major volume of shipments made by my competitors, since they are shipping via truck and the bulk of their market is on their door step.

The door step market of Ontario, Quebec and British Columbia, is also our volume market. Consequently, we must be able to compete on these markets, and yield a profitable return.

My competitors in the large market areas are in an entirely different position to us since the bulk of their business is serviceable by truck and represents their profit market. In return their distant markets such as New Brunswick, Prairie Provinces, etc., a small proportion of their business, and where they use rail service, they extend greater discounts

as an incentive to offset the rail Freight charges in order to procure the extra volume.

If New Brunswick represented 75 per cent to 80 per cent of our market, we could practise the same policy, in Quebec, Ontario and elsewhere.

But, we all know, that with the lower income per capita, the lack of population in N.B. and all the Maritime region that we can only expect to survive by being competitive in the bulk market areas.

Increases in the cost of transportation will have a double barrel effect on us. 98 per cent of all hardware used in the production of wooden boats and canoes, all material used in the production of Fibre Glass boats and canoes, originate out of Ontario, Quebec and the Western provinces. It is also necessary to import lumber materials not available here for boat and canoe production. The slightest increase on inward freight, increases our raw material cost and influences our selling prices. Compound this problem with increased outgoing transportation cost of the finished product, and you have a non competitive position, and shortly one less manufacturing firm in the Atlantic Region.

May I now cite a few examples of increases in Freight and the impact on our products if the Less than Carload Freight rate is cancelled and we are forced to use the cube rate system. This only refers to increases in cost on outward shipments.

(A)—A 16 ft. Pleasure canoe weighing 90 lbs going to Montreal:		
Cube Rate.....	\$24.38	Cubic content 96 Cubic ft.
Class Rate.....	4.62	
Increase.....	\$19.76 or approximately 528%	
(B)—The same canoe to Toronto:		
Cube Rate.....	\$30.14	
Class Rate.....	6.54	
Increase.....	\$23.60 or approximately 462%	
Another example is a 22 ft. Freight canoe going to Montreal:		
Cube Rate.....	\$88.56	
Class Rate.....	15.90	
Increase.....	\$73.66 or approximately 557%	
Another example is a 14'4" Long Outboard Power Boat going to Montreal:		
Cube Rate.....	\$64.21	
Class Rate.....	27.18	
Increase.....	\$37.03 or approximately 236%	
Another example is a 13' Long Outboard Power Boat going to Montreal:		
Cube Rate.....	\$40.50	
Class Rate.....	13.08	
Increase.....	\$27.42 or approximately 309%	



These are only a few examples, but all marine products will vary. The above examples are not selected, but others vary with substantial increases from 200 per cent to 557 per cent.

My company prides itself, in producing quality products. We have fought to maintain our Upper Canadian markets despite poor transportation service, and costly transportation service. We have adjusted prices and lessened our profit in order to compete on this market, but we are unable to do anything more. If the proposed cube rates go into effect it can spell only Death to my company in New Brunswick.

It would not be fair to criticise the rail transportation without giving them their just due. It should here be mentioned the courtesy and willing service provided by the local staff of both rail carriers is greatly appreciated by my firm. But, these people must follow policy and provide the best service they can with the equipment made available to them. When we ship a carload of boats and canoes it travels under Class 85 based on a 50 ft. car at a minimum weight of 10,000 lbs. The unfortunate situation develops, that there is a lack of 50 ft. cars and we often have to settle for a 40 ft. car and pay the same rate as paid for a 50 ft. carload of boats only weighing about 7,000 lbs. and we pay on 10,000 lbs. So this increases our cost per unit as we lose 10 ft. of car space in length and less units are shipped.

I have suggested to you that truck transports are not interested in carrying boats. We have had two outright refusals from truck transports working out of Fredericton. One from Day and Ross Transport, the other from Smith Transport. Other transports will carry our boats and canoes, but only at their convenience, unfortunately we can not operate our business without a more definite policy of delivery, also they will carry our boats at premium rates. Any consideration given to truck transport should be based on an overall policy, of taking the bitter with the sweet, and a controlled rate should be set, otherwise, outright refusal will not be necessary but truckers will be able to conveniently make truck transporting of boats and canoes prohibitive cost wise.

It now seems apparent that rail carriers are desirous of yielding a profit, that most government bodies connected with transportation hold this view. Yet, we as Canadians are subsidizing other modes of transportation, not in

the least the St. Lawrence Seaway, some of the cargo carried on the St. Lawrence Seaway is brought from outside Canada and is competing with our own Canadian manufacturers even though we are subsidizing its movement from ocean to the interior, but, this is carried out in the national interest and ice breaking during the winter, after hundreds of years without it, is claimed to be done to avoid floods.

An overall transportation policy for the Atlantic Region must contain:

(A) Retention of the present "L.C.L." policy with a relative change in pricing in a downward trend by way of better competitive position to allow greater industrial growth in this region leading to a greater volume of traffic out of the Atlantic provinces.

(B) Retention of the present carload rate structure.

(C) Any adoption of a negotiated rate to be extended to the industry as a whole and not to one or individual customers leaving the remainder of the industry uncompetitive, such as happened to my company in Western Canada.

(D) That rail carriers should be nationalized and become a non Profit organization and an organization to work for the good of all Canadians.

(E) That should rail carriers be unable to supply the maximum equipment in accordance with the class rates e.g. 50 ft. cars. They should not supply a larger area car at the same price but a smaller car or larger car at a lesser or additional price rated on the loss or gain per usable cubic feet in the car.

(F) Should any special deals be made by a carrier, with a customer adversely affecting other companies in that particular industry, the companies so affected should have recourse on the carrier.

(G) That all activity of rail and truck transportation be closely supervised by a national supervisory committee, who, would function to control all forms of rate structure, who, would have authority to issue carrier licences, who, would hear grievances from shippers and carriers and settle reimbursements where feasible.

(H) Expanded licensing program for road transportation to and from the Atlantic region.

Gentlemen, my company's position in New Brunswick is not assured, we can not look forward with joy, while we face the threat of extinction by increased transportation cost. To survive and carry on here, we must have realistic freight tariffs, we must be competitive, we must be able to continue to not only hold our present position, but to expand our markets in the bulk market areas of Canada.

The formula to do this is in your hands, your actions and recommendations will most likely be the influencing factor, in our survival.

Submitted by:

CHESTNUT CANOE COMPANY  
LIMITED,  
FREDERICTON, NEW BRUNSWICK

## APPENDIX A-71

SUBMISSION TO THE STANDING COMMITTEE ON  
TRANSPORT AND COMMUNICATIONSby the  
CITY OF MONCTON

February 1968

## INTRODUCTION

The City of Moncton welcomes this opportunity of submitting to the Parliamentary Committee on Transportation, an outline of the major impact of current Transportation policies on the present economy and future growth prospects of the City of Moncton and related area.

No submission of this importance would be complete without an analysis of the general Transportation problems of the Region, since Moncton is directly affected by any measurable change in the Regional economy. For example, the result of changes in the economy of the Sydney area is directly reflected in Moncton's Economy. The same is true in all that portion of the Atlantic Region which Moncton serves as a Transportation Center, and a Distribution Center.

The main purpose of the brief, however, is to place emphasis on the strategic importance of Moncton as the natural Distribution Center of the Atlantic Provinces, and the great urgency of finding solutions to existing transportation costs within the framework of an economic development policy for the Region.

Indeed, the whole future of the City of Moncton is dependent upon the implementation of not only equitable transportation policies for the Region, but overall development programs to encourage regional economic expansion.

THE DEPENDENCE OF THE CITY OF  
MONCTON ON THE REGIONAL  
TRANSPORTATION INDUSTRY

1. THE CITY OF MONCTON, located in Southeastern New Brunswick, is the center of a circle of 200 miles radius which covers the three Provinces of New Brunswick, Nova Scotia and Prince Edward Island and a por-

tion of the Province of Quebec, and includes the transportation terminal for rail shipments to and from Newfoundland and Cape Breton.

2. This strategic position has been built upon 107 years of transportation and distribution development, beginning with the construction of the European and North American Railway from Saint John to Shediac in 1860. This line was absorbed into the Intercolonial Railway when lines were completed between Halifax and Montreal. Moncton became the headquarters for the ICR motive power shops in 1871, and this firmly established the City as the railway and transportation center of the Atlantic Provinces of Canada.

3. In the years following the Second World War, Moncton has attracted significant investment from National Firms in warehousing and distribution facilities to serve as central distribution for the Atlantic Provinces' market of 2 million people.

4. In 1967, there were 172 National and local manufacturing and distributing companies, and 793 retail establishments located in the City of Moncton. These firms, dependent upon the local and national markets, contribute 37.8 percent of the annual taxation revenue to the City of Moncton (See Appendix D).

5. The City of Moncton is the transportation and commercial center of Southeastern New Brunswick which includes for statistical purposes, the Counties of Westmoreland, Albert and Kent. Employees of firms located in Moncton live in this area, and the retail sales of Moncton business establishments depend to a great extent on this area. Based on 1965 Statistics (the most recent available) the total income from transportation, wages and salaries in this area represented 22.3 per cent of total wages and salaries earned in the area. This represents 5,308 jobs. See Appendix II.



6. To further illustrate the importance of Moncton as a transportation center it is noted that during 1965 Moncton Airport handled 6.6 million pounds of freight compared to a total of 5.7 million pounds for all other Airports located in the Atlantic Provinces. Mail handled through Moncton amounted to 1.2 million pounds, some 300,000 lbs more than Halifax and more than the combined weight handled to Halifax, Saint John and Fredericton. Rail freight carload tonnage originating and terminating in Moncton for the period 1963 to 1967 is shown below:

MONCTON FREIGHT CARLOAD TONNAGE

	Originated	Terminated
1963 .....	73,000	370,000
1964 .....	67,000	380,000
1965 .....	61,000	412,000
1966 .....	62,000	404,000
*1967 .....	48,000	361,000

\* To October.

Source: Canada National Railways.

7. To further illustrate the importance of transportation in Moncton some comparison with tonnage moving through Saint John and Halifax Ports are given:

		Saint John Port General	Halifax Port General
Total			
Tonnage Moncton	Cargo	Cargo	
1963	443,000	1,081,200	768,700
1964	447,000	1,170,400	818,500

Source: DBS Shipping Statistics.

8. Moncton is the location of one of the largest Mail Order firms in Eastern Canada (the largest non-carload shipper in New Brunswick) employing 1,380 people. See further information in Paragraph 98, Page 39.

9. The average earnings in transportation employment in the Moncton area are higher than average total earnings, thus any reduction in transportation employment has a greater proportionate effect on the total earnings and retail sales of the area. Further, since the highest percentage of transportation earnings originate from railway employment, any substantial reduction in railway employment and earnings resulting from reduction in usage of rail transportation services would immediately have a direct effect on the economy of the City of Moncton.

10. While the majority of industries located in Moncton have chosen this location in the "Atlantic Provinces Distribution Center" criteria, any increases in their transportation costs (in the case of manufacturers both on imports of raw materials, and outputs of finished goods) will have a direct effect upon their maintenance of present volume and/or potential expansion from this location. In a case where shipments are being made to areas in the Atlantic Provinces where alternate modes of transportation are not available at competitive rates increased non-carload rail rates constitute an increased cost directly affecting their locational position.

11. Because of the increased and inherent freight cost factors, the constant drive for new industries under the Moncton Industrial Development Commission is now, and will be in the future, at a disadvantage in presenting Moncton as a Distribution Center to serve the Atlantic Provinces Market.

12. In the case of Moncton retailers who purchase their requirements in large proportion from Central Canada the new non-carload rates represent substantial cost increases (see Table I). Their only recourse, under the new effective rates and regulations, is to pass this increased cost along to the consumers, resulting in further direct cost of living increases which the salary and wage earners of the area can hardly afford, being below the Canadian average already.

13. Thus it is proven that the City of Moncton is dependent upon the Transportation industry for 22.3 per cent of total wages and salaries earned in the area, support for its retail sales, maintenance of its present manufacturing and distribution industries and in support of City services through taxation to the extent of nearly 38 per cent of the total assessment value.

HISTORICAL REVIEW OF MARITIME  
TRANSPORTATION

1. *To July 1st 1927 and passing of Maritime Freight Rates Act.*

14. Many volumes have been written concerning the history of transportation policies in the Maritimes, but in order to grasp the significance of the situation today a review of the history of Maritime Transportation is essential.

15. During the early part of the 19th Century, some 25 years before Confederation, the three Provinces, New Brunswick, Nova Scotia

and Prince Edward Island enjoyed a period of good economic prosperity. This was referred to as the "golden age" of the Maritimes. The economy was based on the exploitation of resources and the development of shipbuilding industries which placed these three Provinces in a strategic position in marketing.

16. At the mid-point of the century, up to the date of Confederation in 1867, the economy of the Maritime Provinces shifted drastically. The British Commercial policy had supported the monopoly of Maritime trade in the West Indies and in the 1850's Britain adopted free trade and this resulted in a rapid decline in the demand for Maritime timber. In 1866 the abrogation by the United States of the Reciprocity Treaty completely cut off the Region's markets in the New England States. And, finally, the application of steam technology retarded the development of the shipbuilding industry in the Maritimes.

17. Thus, in this period of 25 years, the Maritime economy suffered a very severe setback. Not only were the past markets of the area lost but the major industries of the area were setback beyond a point of recovery.

18. Therefore, when Confederation was conceived as a possible solution to the economic and political problems facing the Maritimes and the upper colonies of Canada, the construction of an intercolonial railway was envisaged as a solution to the problem of obtaining markets in Central Canada for industries located in the Maritime Provinces. In other words the Confederation of the Maritime Provinces with other Provinces in Canada appeared to hold out a firm promise for new markets. The development of the railway appeared to provide the means of reaching these markets.

19. The final decision to build the Intercolonial Railway then became a firm condition of Confederation. Without the construction of the railway Confederation would not have been possible. The basis on which the Maritime Provinces measured Confederation was firmly established on the condition that new markets would be available and the railway would provide the means of reaching these markets.

20. Thus, the construction of an Intercolonial Railway became an important part of the terms of Confederation and was drafted into the British North America Act of 1867. Reference is directed to Section 145.

"Inasmuch as the Province of Canada, Nova Scotia, and New Brunswick have joined in a Capital Deed declaration that the construction of the International Railway is essential to the consolidation of the unity of British North America and to the assent thereto of Nova Scotia and New Brunswick, and have consequently agreed that provision should be made for its immediate construction by the Government of Canada; therefore, in order to give effect to this agreement, it shall be the duty of the Government and Parliament of Canada to provide for the commencement within six months after the Union, of a railway connecting the river St. Lawrence with the City of Halifax in Nova Scotia, and for the construction thereof without intermission, and the completion thereof with all practical speed."

21. The Dominion of Canada further assumed the responsibility of the railway debt and undertook to guarantee a year-round ferry service for Prince Edward Island under the terms of Confederation in 1873. When Newfoundland joined Confederation in 1949 the Government of Canada agreed to take over the Newfoundland railway and to provide for the operation of passenger and freight services including ferry services from North Sydney to Port aux Basques, Newfoundland.

22. While the major inducement to the Maritimes to join Confederation was the construction of the railway, it is evident that defence interests were also predominant in the decision when the route of the railway was selected.

23. Once the intercolonial railway was completed in 1876 the major efforts of nation building were undertaken and the so-called National Policy was established in 1879. The National Policy was a series of plans on the part of the Federal Government designed to develop a transcontinental economy. Under this National Policy the Maritime Provinces continually lost ground.

24. The development of the Western Provinces, the influx of large numbers of New Canadians, and the huge capital investment in Central Canada in major industrial development, all brought about a great rate of increase in the Canadian economy. These rapid changes over a comparatively short period of time had an important stimulating effect on transportation and a large expansion



in railway mileage during the closing years of the 19th century. By this time there were three major railway developments in Canada and the cost of operating such services was far beyond the means of the country to support them.

25. Following the report of the Railway Enquiry Commission which was appointed in 1916, several of the less economic lines were taken over by the Government and certain other lines were amalgamated, including the Intercolonial Railway. These were all incorporated into the Canadian Government Railways which was the forerunner of the present Canadian National Railways system.

26. During this period extensive changes took place in the rate structure. Until 1912 lower rail rates were generally in effect on these consolidated railway lines.

27. It was not until 1912 that the upward revision in rates on the Intercolonial appeared in comparison to the rates in effect in the Quebec/Ontario area. The upward trend became more noticeable as a result of the general rate increases authorized by the Board of Railway Commissioners between 1916 and 1922 when rates on the Canadian Government Railways including Intercolonial, as set up in 1912, were either overlooked or ignored for general consideration. This was the first evidence that rate policies were directly contrary to the policy which had been in force before the year 1912.

28. During these years up to 1923 there were general adjustments in the freight rates on the Intercolonial Railway. In 1923 the Intercolonial became a part of the Canadian National Railway system, and thus fell under the jurisdiction of the Board of Railway Commissioners. At that time the rates on the Intercolonial had reached a level equivalent to those in the Ontario/Quebec area and the lower basis for the benefit of the Maritimes had completely disappeared.

29. The effects of these changes, coupled with the depressed conditions in the Maritimes, served to bring about a movement urging Parliament to restore "Maritime Rights." There was general dissatisfaction with the effects of the National Policy on the Region, particularly with the failure to encourage development of the ports of Halifax and Saint John and the abandonment of the region's favourable freight rates. In 1926, as a result of these pressures, a Royal Commission was set up to undertake a complete investigation of the matters relating to "Maritime Rights."

This was known as the Royal Commission on Maritime Claims and the Commission reported the following year.

30. In any review of the transportation situation of the Atlantic Provinces two events stand out as having particular significance and relevance in relation to the situation at the present time. The first was the construction of the Intercolonial Railway. The second were the findings of the Duncan Commission, as it has become widely known, regarding the purpose of the Railway and the rate policy adopted on the line in furtherance of that purpose, upon which the Commission based its recommendations. Accordingly, in view of the importance of these recommendations, they are reproduced in the following pages almost in full. (The marginal figures refer to the numbered sections in the Report.)

31. Regarding the alleged reversal of transportation policy with respect to the construction and operation of the Intercolonial Railway the Commission observed:

"8. ... We think, however, that a balanced study of the events and pronouncements prior to Confederation, and at its consummation, confirms the representations submitted to us on behalf of the Maritime Governments in regard to the ultimate construction of the railway, viz:

(a) That leading Canadian Statesmen in urging the adherence of the Maritime Provinces to Confederation defined the purposes of the railroad to be

(i) A means of affording to Canadian merchandise, and to Canada herself in times of national and imperial need, an outlet and inlet on the Atlantic ocean—available all the year round—and

(ii) To afford to Maritime merchants, traders and manufacturers, a market of several millions of people instead of their being restricted to the small and scattered populations of the Maritimes themselves, particularly in the light of the disturbance with which their trade was threatened as the result of the discontinuance by the United States of the reciprocal arrangements that had prevailed.

(b) That strategic considerations determined the actual course of the line—making it many miles (estimated by Sir Sanford Flemming at 250 miles) longer than



was necessary—if the only consideration had been “to connect the cities of the Maritime Provinces with those of the St. Lawrence.”

(c) That to the extent that commercial considerations were subordinate to national, imperial and strategic considerations, the cost would be borne by the Dominion and not by the traffic that might pass over the line.”

#### 9. *Rate Structure of Intercolonial Railway*

“The Intercolonial Railway was completed in 1876, and it would appear from the evidence we have received that from then until 1912 the interests of the Maritime Provinces were fairly well safeguarded, the freight rate structure being such as to take into account the requirements of their traffic. The lower level of rates that prevailed on the Intercolonial Railway system prior to 1912 is, in our view, rightly to be interpreted as the fulfillment by successive governments of the policy and pledges that surrounded the railway from its inception, whatever impressions may have been created by the form of its administration.

“Since 1912, changes have taken place in the framework of the rate structure, and increases have been added to the freight rates. The combined effect of these had been to impose upon the merchandise and industry of the Maritimes, a burden which, it is alleged, is quite out of proportion to the increase which has been added since 1912 to the freight structure in other parts of Canada, although it may, in many cases, only have raised Intercolonial Railway rates to the same level of scale as rates in other places.

“The net result of these changes is broadly shown by the figures given in evidence by the Railway administration who, at our request, furnished us with statistics to show the position now as compared with 1912 for the Intercolonial Railway and for the rest of Canada. These figures reveal that Intercolonial rates have suffered an estimated cumulative increase of 92 per cent (i.e. their 100 has become 192). The estimated average increase of rates for the rest of Canada is 55 per cent (i.e. their 100 has become 155).”

#### 10. *Effect of Changes in Rate Structure in Maritimes*

“The Maritimes case on railway rates was put to us in very considerable detail. The Railway Commission is at the present time dealing with these same details, and we have not formed any opinion on these matters so far as a judgment on their merits would involve consideration of railway administration and policy. On the broader question, however, of the incidence of the existing rates as a whole upon industry and employment in the Maritimes, we have come very definitely to the conclusion that the rate structure as it has been altered since 1912 has placed upon the trade and commerce of the Maritime Provinces, (a) a burden which, as we have read the pronouncements and obligations undertaken at Confederation, it was never intended it should bear, and (b) a burden which is, in fact, responsible in very considerable measure for depressing abnormally in the Maritimes today business and enterprise which had originated and developed before 1912 on the basis and faith of the rate structure as it then stood.”

#### 11. *Recommendation on Freight Rates*

“We conceive this to be a position with which—quite apart from details of particular rates—it is our function to deal, and a position which must be dealt with drastically and promptly. We take this view the more readily since the President of the Canadian National Railways system did not dissent from Sir Sanford Flemming’s railway estimate that, for strategic reasons, the Intercolonial had followed a course approximately 250 miles greater than would have been followed had it been built merely for commercial purposes. He further explained that, owing to grades and curvatures, the operating and maintenance expenses of this branch of the railway were much greater than the average of the rest of the system, and, still further, that winter conditions in the Maritime Provinces necessitated special expenditure arising from snow and ice conditions—and consequent delays in traffic transit—much in excess of what were experienced in other parts of the system. It is true that the operation of the Atlantic Division has shown an operating deficit in recent years in spite of the higher rate structure (in-

cluding general war increases) that has been imposed on it since 1912. But there are many considerations to be taken into account in considering that deficit. For our present purpose, it is more material to notice that the President of the Canadian National Railways admitted in evidence, that in administering the Atlantic Division (the greater portion of which is the old Intercolonial system), no account is being taken in the rate structure of today of the special considerations which attach to it as revealed in the pledges and pronouncements already referred to. We feel that the increase arising from the changes that have taken place in freight rates since 1912—over and above the general increase that has taken place in other parts of the National system—is as fair a measure as can be made of the special considerations, and accordingly should be transferred from the Maritimes to the Dominion so that the original intention may be observed.

"We recommend, therefore, that an immediate reduction of 20 per cent (so that 192 will become approximately 155) be made on all rates charged on traffic which both originates and terminates at stations in the Atlantic Division of the Canadian National Railways (including export and import traffic, by sea, from and to that division), and that the same reduction be also applied to the Atlantic Division proportion of the through rates on all traffic which originates at stations in the Atlantic Division (excluding import traffic by sea), and is destined to points outside the Atlantic Division.

"For this purpose, we cannot regard the Atlantic Division as ending at Riviere du Loup and Monk, which are its present western limits. The divisional points should, in our view, be Diamond Junction and Levis, Diamond Junction being the point at which the Trans-continental Railway meets the old Intercolonial Railway, and Levis the point to which, in 1879, the Intercolonial Railway was extended.

"It might be contended that a flat rate reduction of the amount we name, and in the manner we name, is open to the objection that it does not restore the pre-1912 relatively of rates within the Provinces themselves, and that it is not an accurate assessment of the charges that arise from the considerations in

mind. We do not believe—and the Canadian National Railways have informed us that they do not believe—that any more accurate investigation, which would, in any event, take an indefinite time to conduct. The situation is one that can only be dealt with in a broad spirit, and one that for the economic welfare of the Maritimes must be met without delay. The course we suggest has the effect of giving immediate relief in a manner that is equitable as well as broad. The cost of this relief should be definitely borne by the Dominion Government, who will make the necessary reimbursement to the Canadian National Railways through the medium of the Canadian National Railway Budget, without impairing the financial results of the operation of the system. We are not overlooking that the other great railway system operating in the area would be entitled to equitable consideration if they find themselves prejudiced as a result of the reduction proposed".

"We think that this broad measuring, once and for all, of these considerations has such decided advantages that it should not be qualified or delayed by minor criticism. It separates completely considerations of national public policy from considerations of railway policy proper. It restores the original purpose of the Intercolonial Railway as interpreted by the freight structure prior to 1912, without withdrawing it from the consolidated system of National railways, a step which we think would be retrograde, and, in the end, very unsatisfactory. The cost of the reduction is a matter that can be measured definitely and conclusively for each financial period without any complication or confusion to the financial operations of the consolidated system—a feature that, in our view, is almost as important as the avoidance of complication in the practical operations of the system."

32. Following the Commission's Report in 1926 Parliament enacted the Maritime Freight Rates Act, implementing almost in full the Commission's recommendations respecting freight rates. Assented to on April 14, 1927, the Act became effective on July 1, 1927.

33. The preamble of the Act summarizes the main findings of the Duncan Commission and, because it was not incorporated in the



Revised Statutes, is reproduced here in full so as to avoid any possible misunderstanding of the purpose and intent of the Act.

"WHEREAS the Royal Commission on Maritime Claims by its report, dated September 23rd, 1926, has, in effect, advised that a balanced study of events and pronouncements prior to Confederation, and at its consummation, and of the lower level of rates which prevailed on the Intercolonial system prior to 1912, has in its opinion, confirmed the representations submitted to the Commission on behalf of the Maritime Provinces, namely, that the Intercolonial Railway was designed, among other things, to give to Canada in times of national and imperial need, an outlet and inlet on the Atlantic Ocean, and to afford to Maritime merchants, traders and manufacturers the larger market of the whole Canadian people instead of the restricted market of the Maritimes themselves, also that strategic considerations determined a longer route than was actually necessary, and therefore that to the extent that commercial considerations were subordinated to national, imperial and strategic conditions, the cost of the railway should be borne by the Dominion, and not by the traffic which might pass over the line; and whereas the Commission has, in such report, made certain recommendations respecting transportation and freight rates, for the purpose of removing a burden imposed upon the trade and commerce of Provinces since 1912, which, the Commission finds, in view of the pronouncements and obligations undertaken at Confederation, it was never intended such commerce should bear; and whereas it is expedient that effect should be given to such recommendations, in so far as it is reasonably possible so to do without disturbing unduly the general rate structure in Canada: Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada enacts as follows:"

34. Certain important features and provisions of the Maritime Freight Rates Act are as follows:

(1) The rates on the lines of the Canadian National Railways east of Levis and Diamond Junction, Quebec (the western terminus of the Intercolonial Railway) designated as

"Eastern Lines" were to be reduced by approximately 20 per cent, effective July 1, 1927.

(2) A reduction of approximately 20 per cent was to be made in the "Eastern Lines" proportion of the through rates on traffic moving outward, all rail from "select territory" to points outside "select territory". ("Select territory" may be defined for purposes of the Maritime Freight Rates Act today as that territory covered by the lines of railway location in Canada East of Levis, Diamond Junction and Boundary, P.Q. and South of the St. Lawrence River.)

(3) A reduction of approximately 20 per cent was to be made from points in "select territory" to ocean ports in that territory.

(4) The reductions were not to apply on the following traffic movements:

- (a) traffic to or from the United States.
- (b) eastbound traffic originating west of Levis and Diamond Junction.
- (c) import traffic into Canada.
- (d) passenger or express movements.

35. At this point it is useful to outline, in brief form, the objectives of the Maritime Freight Rates Act. Under this Act, the freight tariffs on "preferred movements" on CNR lines in "select territory" were reduced by 20 percent. "Select territory comprises the Provinces of Nova Scotia, Prince Edward Island and New Brunswick and a part of Quebec east of Diamond Junction and Levis and south of the St. Lawrence River." Preferred movements were defined as (1) all rail movements wholly within select territory, (2) rail or rail and water movements originating in select territory destined to other points in Canada, that part of the rail journey within select territory being the "preferred movement", (3) export movements originating in select territory and destined overseas and which passed to an ocean port within the select territory—the rail journey within the select territory being deemed "preferred movements", traffic moving over the car ferries was to be treated as all rail traffic. In order to clarify the intention of the Act certain movements were named as *not* being "preferred movements". These included East bound movements from the rest of Canada to select territory, all rail movements in both directions between select territory and United States, import traffic, and passenger and express movements.



36. Under Section 8 of the Act other rail operating lines within the territory were allowed to reduce their tariffs by a similar proportion. The Board of Transport Commissioners was to exercise approval over tolls filed under the Act and to certify the normal tolls which would have been charged in the absence of the Act. The Board would certify the loss in revenue resulting from charging reduced tolls and this amount would be reimbursed by Canada Department of Transport.

37. Thus, it is clear that the Act introduced a twenty per cent subsidy payable to the Railways on most freight movements within select territory and from select territory to other parts of Canada.

38. The Duncan Commission, in its argument leading to its recommendation of freight rates concentrated its attention on the events associated with the Intercolonial railway. After hearing the evidence on the erosion of the low rates structure on the Intercolonial Railway and the Confederation pledge that traffic on the line should not bear the full cost of the line, the Commission made a recommendation relating to all Railway Lines in the Maritimes and not solely to the Intercolonial line to which the pledges and rate history had referred.

39. *Clearly the Commission believed that the objective of the low rate structure enjoyed on the Intercolonial which was aimed at affording to Maritime Merchants and manufacturers larger markets elsewhere should logically be extended to all railways in the Maritimes. The main purpose of the Commission's recommendation of a twenty percent reduction in Maritime freight rates was therefore to institute throughout the area the lower rate structure which the Intercolonial had enjoyed previous to 1912 and by doing so implied the belief that all the Maritimes were entitled to a low rate structure in fulfilment of pledges regarding access to markets in all of Canada.*

40. The argument that assistance due to the Maritimes because other considerations had determined the final route of the Intercolonial Railway becomes of secondary importance compared to the much more significant conclusion that a low rate structure for the Maritimes should be regarded as the fulfilment of a Confederation pledge.

41. The extension of assistance to other railways was very important because the In-

tercolonial was no longer the main railway linking the Maritimes with the Central Canadian provinces.

42. The Duncan Commission believed, therefore, that there was an obligation on Canada to provide to Maritime Shippers some form of assistance which would "afford to Maritime Merchants, traders, and manufacturers a market of several millions of people instead of their being restricted to the small scattered population of the Maritimes themselves." In the past this assistance had taken the form, first, of the construction of the Intercolonial Railway and, second, the maintenance of a low freight rate structure on the railway. The erosion of the preferential freight rate structure had been contrary to the pledges and policy surrounding Confederation and had resulted in considerable damage to Maritime interests. The Commission therefore decided that the most appropriate form of assistance to the Maritimes to afford them a wider market would be to reintroduce a rate advantage similar to that enjoyed on the Intercolonial Railway before 1912. The Commission considered the simplest and most effective way of introducing such an advantage to be through the recommended twenty per cent subsidy on freight rates.

43. Thus, it is emphasized that the main justification for the Maritime Freight Rates Act was in obligation made at Confederation, to afford wider markets to the Maritime Provinces which in fact, provided a major reason for the interest of New Brunswick and Nova Scotia in Confederation in 1867, and provided a major consideration for the entry of Prince Edward Island into Confederation in 1873, and Newfoundland in 1949.

#### HISTORICAL REVIEW OF MARITIME TRANSPORTATION

##### II. To September 2nd, 1967: Passing of National Transportation Act.

44. Immediately following the implementation of the Maritime Freight Rates Act in 1927, there was a noticeable trend toward the first successful participation of the trucking industry in transportation in Central Canada. Several cases were noted where competitive rates with the Railway were being offered by the trucking industry in that area.

45. This trend was noted by Maritime interests and a test case was brought before the Board of Transport Commissioners and eventually appealed to the Supreme Court of

Canada, wherein it was alleged that the reduced rates in question were contrary to Section 8 (now Section 7) of the Maritime Freight Rates Act which stated "the Board shall neither approve nor allow any tariffs or tolls which might destroy or prejudicially affect the statutory advantages".

46. Two decisions resulted from this case. The allegation on the part of the Maritimes that the rates protested were contrary to the Act was vindicated "if such tariffs prejudicially affect" the statutory advantages. The Board further stated, however, that competitive rates were discretionary with the Railways and it had no power to adjust or revise the statutory rates to reflect rate reductions made outside "select territory". It was of great significance to note that the case did not prove that either harm or prejudice had resulted to any person or industry in the select territory and the conclusion was made that cancellation of the rates within Central Canada would only serve to divert the traffic to truck freight.

47. This brought to light, for the first time, one of the major shortcomings of the Maritime Freight Rates Act—that is, that the conditions of competition in transportation had rendered the Act partially obsolete in terms of the original purpose, and that its value as a protector of the Statutory advantages to the Maritimes had been lessened.

48. From 1927 to 1945 there were no general freight rate increases. Following the end of the war in 1945 with the removal of price and wage controls the Railways had been influenced by increased labour and material costs and applied to the Board of Transport Commissioners for a general freight rate increase of 30 per cent. The Provinces affected, both in the Maritimes and Western Canada, immediately opposed the application. In April 1948, the Board of Transport Commissioners authorized a general increase of 21 per cent bringing about the first increase in freight rates in a 25 year period.

49. Thus, generally through the expressed dissatisfaction of most of the Canadian Provinces (with the exception of Quebec and Ontario) on December 29, 1948, a Royal Commission on Transportation was set up.

50. This Royal Commission brought in its Report in February 1951. Referring to page 27 of the Commission Report, we find the following: "At Confederation they were promised access to the Central Canadian market. Today, in view of the deterioration in foreign

trade, particularly because of monetary and commercial restrictions, access to the Central Canadian market has become more important than ever. Isolation of the Maritimes from the Central Canadian area as a result of distance and increased freight charges is one of the central themes put forward in their case".

51. The Commission referred to two major changes which had been noticeable since the enactment of the Maritime Freight Rates Act in 1927;

(a) the adverse affects of the growth of truck competition on the competitive position of Maritime industry in the central markets

(b) the horizontal method of applying freight rate increases following the end of the Second World War.

52. In further recommendations in relation to the growth of the truck competition in Central Canadian markets, the Maritimes representations took the position that certain revisions were necessary in Section 7 (then Section 8) of the Maritime Freight Rates Act. These took the form of a recommendation that the Board of Transport Commissioners be authorized and directed to adjust or vary tolls subject to the Act from time to time as may in the opinion of the Board be necessary "to maintain the said statutory advantage in rates when there have been reductions in tolls or rates elsewhere than in the select territory."

53. This suggested revision was rejected by the Commission on the grounds that it would ensure to the Maritimes all the competitive rates regardless of whether or not there was competition for the railways in select territory and would thus allow the Maritimes an additional advantage not intended by the original Act. The Commission contended that it would be contrary to the rate-making principle that competitive rates are in the discretion of the railway and are put in force to preserve at least some of the traffic of the railways.

54. The submission to the Royal Commission on Transportation by the Maritimes Transportation Commission in September 1960 refers to the conclusions of this Commission in the following manner:

"From these findings of the Commission it is difficult to avoid the conclusion that the Commission either failed to appreciate the real purpose of the Act, or, alternatively, that it overlooked completely the findings on which the recommendations of the Duncan



Commission were based which directly resulted in the passage of the Maritime Freight Rates Act in 1927. Thus the Commission states, and correctly, that the object of the 20 per cent reduction was to restore the advantage of the rates which the Maritimes had enjoyed previous to 1912. It goes no further in rejecting the request similarly it considers the departure of the 20 per cent reduction unwise basing its opinion on the calculation used by the Duncan Commission in arriving at such a figure which again is only incidental to why the Duncan Commission imposed a reduction at all."

55. In brief, this Royal Commission did not recognize any case for the Maritimes in further adjustment in the Maritime Freight Rates Act over the 20 per cent recommended by the Duncan Commission and put into effect by the Maritime Freight Rates Act in 1927.

56. Up to the time of this Royal Commission Report in 1951 there had been four general increases in freight rates. 21 per cent in 1948, 8 per cent in 1949, a further 8 per cent in 1950, and a still further increase of 4 per cent bringing the total increase to 20 per cent in 1950. On a cumulative basis these increases represented a rise of about 45 per cent in the level of freight rates as they were effective before April 1948. Following the Royal Commission's Report the trend on freight rate increases continued until, in 1956, the aggregate cumulative increase was in the order of 98 per cent.

57. When the Royal Commission on Canada's Economic Prospects was appointed in 1956 the Maritimes Transportation Commission made a submission outlining the constantly decreasing benefits of the Maritimes Freight Rates Act. As a result of the recommendations of this Commission an increase in the subvention from its level of 20 per cent to a level of 30 per cent in the case of outbound was implemented. This change was announced on March 14, 1957.

58. In December 1958, the Board of Transport Commissioners authorized a further 17 per cent increase in rail freight rates. Because of the concern about the effects of horizontal increases and transport costs in outlying areas, the federal Government introduced the Freight Rates Reduction Act. Under this legislation the railways received a subsidy of \$20 million per year to increase their revenue requirements. The railway reduced their authorized *Class and Commodity Rates* which

were increased by 17 per cent, by an amount equal to the \$20 million per year. Administered by the Board of Transport Commissioners, this subsidy caused a reduction of the 17 per cent increase authorized in December 1958 to 10 per cent in August 1959 and to 8 per cent in May 1960. Further rising costs made it necessary for Parliament to vote an additional \$50 million a year in 1962 to maintain these rates at the reduced level. A further \$25 million was voted for this purpose in 1966.

59. As a result *Class and Commodity rates* were effectively frozen at 1958 levels. Railway revenue requirements in the period were partially met by this subsidy and the balance was met by increases in competitive rates.

60. Under the National Transportation Bill this Freight Rates Reduction subsidy would be replaced by a general subsidy of \$110 million which would be phased out by 1975, and would be replaced by a new subsidy compensating the railways for certain uneconomic services deemed within the public interest. It is considered by calculated projections that the abolition of the Freight Rates Reduction subsidy and other factors of increased costs that a general increase of 6 per cent will be required in *Class and Commodity rates* in the Atlantic Provinces over the 8-year period to 1975, but there is, of course, no assurance that this would cover increased railway operating costs.\*

61. It should be noted that the last Royal Commission to deal specifically with Maritime Transportation was the Duncan Commission in 1926-27. All other Royal Commission investigations since that date dealt with the area in the context of all of Canada.

62. In 1960, the MacPherson Commission on Transportation was set up. The submission of the Maritimes Transportation Commission to this Royal Commission, in September 1960, cites the intention of this increased subvention as being the restoration of the rates to the position they occupied in relation to other Canadian rates at the end of World War II. It further states that it did not appear to have accomplished this purpose because it had the effect of only offsetting the general increase in freight rates of 11 per cent granted earlier in that year.

63. The recommendations of this Royal Commission led to the passing of the National

\* Atlantic Provinces Transportation Study, Economist Intelligence Unit, Vol. V. pg. 124.



Transportation Act in late 1967. This Act was the first Legislation in Canada to allow the railways freedom to set rates to reflect costs of the services.

#### TRANSPORTATION POLICIES AND COSTS IN PERSPECTIVE

64. It is clear from analysis made by the Economist Intelligence Unit for the Atlantic Development Board<sup>(1)</sup> that the effects of competition have completely undermined the rate relationship which the Maritime Freight Rate Act was designed to maintain. Competitive measures outside the Maritime region have been somewhat greater than in the Maritime region with the result that the railways have been compelled to quote more and lower competitive rates and agreed charges in central Canada than they have in the Atlantic Provinces. The relationship between rates in the two areas has thus altered in favour of central Canada. The Maritime Freight Rates subsidy has been able to do little to offset this trend. As the tendency to quote an increasing number of rates against competitive modes of transport continues, the Maritime Freight Rates Act becomes less and less effective in meeting its intended objective.

65. In non-competitive rates the Act succeeds in maintaining a rate advantage in select territory although it does not succeed in maintaining the rate advantage in traffic moving to Central Canada unless similar traffic in central Canada is also moving on non-competitive rates. Because a much higher proportion of traffic in Central Canada is competitively rated, it is not uncommon for a commodity moving from the Atlantic Provinces to the central Canadian market to move on a non-competitive rate and for similar products moving within central Canada to move on an agreed charge or competitive rate. In these instances, the Maritime Freight Rate Act does not succeed in maintaining the rate advantage to the shipper in the Atlantic Provinces.

66. The Maritime Freight Rates Act can therefore be considered to be achieving only limited success in fulfilling its twin objectives of (a) maintaining a statutory rate advantage in the Atlantic Provinces, and (b) affording wider markets to Atlantic Region manufacturers.

67. The MacPherson Commission recommends that (a) subsidies on west-bound ship-

ments be extended to all modes of transportation (b) the subsidy on movements wholly within select territory be abolished and (c) the subsidy on movement within, to, and from, Newfoundland and select territory be retained.

68. The National Transportation Bill originated directly from the recommendations of the MacPherson Commission. National Transportation Policy may be defined as "making the best use of all available modes of transportation at the lowest possible cost".

69. While the terms of the National Transportation Bill follow the MacPherson Commission on railway rate regulations, the protection given to shippers in non-competitive areas is not as broad as recommended by the Commission.

70. The interpretation under the Bill of the definition of a captive shipper in relation to maximum rates appears to offer considerable latitude. The maximum rate formula for calculating the fixed rate to be paid by captive shippers does not appear to offer protection to shippers of heavy loading products.

71. Under the increased rate-setting flexibility given to the railways under the Bill, many traditional pricing policies will be abolished. These traditional features have been beneficial to shippers in the area.

72. These features have been aimed at reducing the distance and isolation of the Atlantic Provinces from the rest of Canada. While the National Transportation Bill does not indicate either retention or abolition of these traditional rate characteristics, there is reasonable doubt that they will continue.

73. The most important of these is the system of "arbitraries" on shipments into and out of the region east of Montreal. For example, the rate from Toronto to Moncton would be made up of a rate from Toronto to Montreal plus an arbitrary from Montreal to Moncton. The rate from Moncton to Toronto should be the same except the reduction applicable under the M.F.R.A. Compared to the total distance, the scale of arbitraries operates to reduce the element of distance in rates by not reflecting the full length of haul in the rate.

74. The manner in which these traditional arbitraries may be treated under the Act is not known.

75. The National Transportation Bill, for the first time, provides a basis for transport

<sup>1</sup> Atlantic Provinces Transportation Study—January 1967 Economist Intelligence Unit.

services to reflect, in rates charged, the cost of these services. The economic position of the manufacturer and distributor in the Atlantic Provinces is immediately placed at a disadvantage compared to his competitor located in Central Canada. In brief, the basis of Confederation and the Maritime Freight Rates Act was to reduce the distance as reflected in these rates.

76. Because of certain conditions which still prevail, the railways still have certain monopoly positions on some traffic in the Atlantic Provinces. Not all this traffic will be within the definition of a captive shipper as defined in the Bill.

77. Over and above the effective rates under the Bill, there seems little doubt that freight rates will continually rise over the next few years in direct proportion to (1) wage increases, (2) the phasing out of the Freight Rates Reduction Subsidy, and (3) any further operational costs.

78. The two-year rate freeze laid down in the Bill on class and commodity rates in the Atlantic Provinces will cause further difficulties to the development of competitive transportation.

79. It is recognized that Transportation Policy has limited application to stimulating development of new industry in today's economy. But the effects of transportation costs on specific types and sizes of industries located in the Atlantic Provinces (both from the standpoint of raw material inputs and movements of products to markets) are of considerable magnitude in relation to their other costs.

80. Professor B. S. Kierstead, in 1948, produced an analysis of manufacturing in the Atlantic Region. In his conclusions he cited the area's disabilities and stated that transportation costs were among the major deterrents to expansion. He concluded that three types of industries only, would locate and expand in the Region.

(a) Industries based on natural resources which would grow based on domestic and foreign demand.

(b) Industries in which the cost of shipping the product is much greater than costs of shipping raw materials such as *food and beverage industries*.<sup>\*</sup> These could be expected to grow in proportion to local population increase and demand for goods.

<sup>\*</sup> Statement not applicable at present.

(c) Industries in which low wages and certain labour force characteristics could affect the transportation costs and lower labour productivity. These would include textiles, boot and shoe manufacturers, and candy manufacturers.

In the period to 1967 the majority of industrial expansion has proven to be within the framework of these three categories and those in the three categories specified in (c) have continuing difficulties.

81. The main factors still operating against the growth and expansion of secondary manufacturing industries in the Atlantic Provinces, and in favour of location in Ontario and Quebec are:

1. The difference in size in regional markets and national markets. To illustrate, if a plant is located in Ontario, the majority of its production can be shipped relatively short distance to market. There is a chance of alternate modes of transport and competitive rates. In fact, such competition has substantially reduced freight costs in that market area. Only a small portion of the production must be shipped to the Atlantic Provinces and Western Canada. *Transportation costs in total are minimized by central location.* In comparison, a plant located in the Atlantic Provinces, on a scale to produce a volume of production sufficient to operate efficiently, must usually depend on Central Canadian sales for a majority of its production. The transportation costs to markets outside the region are much higher, the transportation costs of raw materials and supplies required from outside the region are higher, and if shipments cannot be arranged in carload lots, the transportation costs to markets within the region are higher.

2. Most industries require modern methods and a relatively large scale of production to remain competitive. In most manufacturing operations, the Regional market is not sufficient to support an efficient scale of production, by present standards. In addition the purchasing power of the regional population is still far below the National average.

3. In the post war years. Existing freight rate structures have discriminated against the shipment of manufactured goods. Our rail rates generally favour the movement of raw materials or some processed materials. High-value goods move at rail rates higher than low-value goods. The lack of development of alternate modes of transportation has allowed these rates to remain in force.



82. The following is extracted from a letter written by twelve New England Senators to the Interstate Commerce Commission in 1956.

"...We believe that a general percentage increase although somewhat easier to approve and administer discriminates against those areas of the Country already suffering from disadvantageous rates. For example, if the flat rate between A and D is \$2.00 and between B and D is \$3.00, a flat increase of \$0.50 maintains that \$1.00 spread between the two rates. If, however, there is a 25 per cent increase, the A to D rate becomes \$2.50 and the B to D rate, \$3.75 and the spread \$1.25..."

83. This illustrates the effect of freight rate increases in the post war years in Canada. In Canada as in the United States the history of rail rate changes has been one of *horizontal percentage increases*, which discriminates against long-distance shippers as compared to short haul shippers. In the Atlantic Provinces this discrimination is further aggravated because of the truck-railway competition in central Canada, which has kept rail rates far below authorized levels.

84. The cumulative effect of rate increases between 1948 and 1957 come close to the amount which would offset statutory freight assistance.

85. The Government of New Brunswick, in its brief to the Royal Commission on Canada's Economic Prospects stated "we may be approaching the position that prevailed in 1926 when rate increases in Maritime area had been increased about 40 per cent more than those elsewhere" and questioned whether or not it was reasonable "that the part of the country which admittedly operates the most difficult economy should not only be asked to meet its share of increased transportation costs, but as well contribute to revenues lost by railways in the (Central) areas from which comes the stiffest competition?"

86. The Royal Commission on Canada's Economic Prospects final report carried the statement "It seems evident that the transportation facilities of the Atlantic Region are in need of improvement.... Quite obviously the cost of improving the various services should be carefully estimated and considered, and care should be taken to avoid the introduction of duplicate facilities.... It would be unwise to spend large sums on the construction of highways merely for the purpose of forcing a reduction in railway rates by the introduction

of highway truck competition and thus increasing the present losses of the railways..."

87. Between the implementation of the additional 10 per cent subsidy in 1958 and the introduction of new rates in late 1967 any efforts made to develop a solution to the regional problem were insignificant.

88. Complaints are still being made by industries on inefficiencies in transportation. Foremost among the inefficiencies evident, and continually causing problems to local industry, are (a) delays in production (b) delays in sales turnover, (c) increased working capital requirements for increased inventories on hand and in transit.

89. All these inefficiencies are operating in the Atlantic Provinces, perhaps to greater degrees in Newfoundland and Prince Edward Island, but to the extent in the whole Region as to place severe disadvantages on manufacturing and service operations.

90. The Atlantic Provinces Transportation Study by the Economist Intelligence Unit Limited for the Atlantic Development Board states "... transportation shortcomings may have deterred investment in New Brunswick but no evidence was discovered to substantiate this view." There is ample evidence available from groups active in industrial development in the Region, that transportation costs and inefficiencies do, in fact, constantly deter industrial investment in the area. There are numerous cases in evidence where the combined difficulties of reaching the central Canadian market competitively, with central Canadian location, and arranging economic transport for raw material inputs from sources outside the region, terminated considerations of locating in New Brunswick in favour of central Canada.

91. To date the "designated area" scheme with resulting incentives has not contributed substantially to offsetting these inherent problems.

92. Locational decisions leading to location of manufacturing and distribution industry no longer include major considerations for lower labour rates as in the past, since most profitable operations are now less labour intensive. Major consideration is given to access to markets sufficient to sustain an economic scale of production, and amortize relatively high capital investment. In keeping with this the constant costs of delivery of raw materials from



outside the region combined with costs of freight to markets constitute major cost factors.

93. Tariffs prohibit North-to-South marketing for Atlantic Provinces manufacturers, even by using lower cost ocean freight.

94. The development of the St. Lawrence Seaway and continuing progress toward longer periods of winter navigation has already reduced, and will continue to reduce, volume of freight movements through Moncton and the Atlantic Ports. Certain major financial commitments have been established by the Government of Canada for this system. While the studies undertaken to measure the influence of the St. Lawrence Seaway on Atlantic Ports have never been published and insufficient attention to the economic influences has been noticeable, the urgency of adoption of the same principles for Atlantic Region transportation facilities is obvious.

95. In summary, with downward trends in volume of freight movements through the Atlantic Provinces and the lack of large scale industrial development in the Region there is not a sufficient economic base to support the costs of transportation without due consideration to the continuation of some program of financial assistance of transportation related to the considerations at the time of Confederation and at the time of the enactment of the Maritime Freight Rates Act in 1927, but in keeping with present economic conditions.

#### EFFECTS OF NEW NON-CARLOAD RATES ON INDUSTRIES SHIPPING THROUGH MONCTON

96. In measuring the present impact of new rail non-carload rates, the optional Class rates still in force with additional cartage pick-up and delivery are always in consideration as alternatives. However, when alternative modes of transportation are used these rates have been increasing toward the level of rail rates.

97. The comparative importance of rail L.C.L. services to the Atlantic Provinces is clearly illustrated in Appendix III. In summary, the usage of L.C.L. service analysed by Provinces for the year 1966 shows the Province of New Brunswick as the second highest used in Canada. Usage in New Brunswick was 434 lbs. per capita, the Atlantic Provinces 364 lbs. per capita and Canada 192 lbs. per capita. Because Moncton is the distribution center of

the area and occupies a significant place in volume of provincial movements the importance of L.C.L. services is obvious.

98. In the case of the largest L.C.L. shipper in New Brunswick located in Moncton the rules of E.T.A. Tariff 100 impose high increases in costs to service customers throughout the Atlantic Provinces and Gaspé. Those increases amount to as much as 142 per cent. Studies being carried out on a National level will lead to the elimination of certain "light weight" consumer products from the firms' lines. An examination by the Company of several thousand items shipped shows an average weight of under 7 lbs. per cubic foot.

99. In the case of manufacturers and processors two important freight cost factors come to light. The first is the increased costs at present and continuing into the future, of freight on raw materials from central Canada to the Moncton area. While this is an important cost factor there seems to be unanimous agreement that little can be done to reduce these costs, and that equitable freight costs to the Central Canadian market must be given first attention. There is also agreement that the freight disadvantage on raw materials in addition to present non-carload rates add a burden which cannot be borne by the local manufacturer, and in numerous cases non-carload rates and the rules of Tariff E.T.A. 100 make it impossible to reach certain areas in the Atlantic Provinces competitively.

100. The lack of development of well organized competitive alternate modes of transportation will create continuing problems in maintaining regional markets. The areas in which this appears to present problems of the greatest frequency are Newfoundland, Eastern Nova Scotia and Cape Breton and North-eastern New Brunswick. In some instances rail L.C.I. services have been slow enough to cause customer service problems in the past.

101. There are a number of manufacturers in the Moncton Area which cannot reach the Newfoundland market under the new non-carload rates. The firms provide a high rate of employment compared to general industrial employment. There is little evidence of available competitive efficient alternative transport in these instances.

102. In the case of firms operating as region distributors and as warehousing and distribution branches of National firms serving the regional market or segments thereof, the combination of the increased non-carload

rates, i.e. Tariff E.T.A. 100, coupled with the influence on increased truck transport rates, bring current freight services costs in the region to the point where it may be considered expedient to review these costs in relation to maintenance of facilities and inventories in Moncton as compared to direct distribution from Quebec or Ontario by pool car arrangements. Should this decision be made by even a small percentage of the industries located in the Moncton area, the effects on employment and the City tax base would be evident immediately.

103. The final implementation of new non-carload freight rates (Tariff E.T.A. 100) or the continuation of old L.C.L. rates with added cartage costs will affect Moncton manufacturers and distributors by (a) corresponding increases in alternative transportation costs (b) no relief in reaching certain sections of the regional market and (c) no relief in reach-

ing the central Canadian market. In the latter problem the usage of non-carload rates by the particular type and size of operation in the area is of vital importance.

104. If the subsidy is withdrawn on shipment within the region as recommended by the MacPherson Commission, then some firms located in the Moncton area will find it impossible to maintain their full present market in the region. Without a policy providing for a freight rate structure to afford local manufacturers an opportunity to reach the central Canadian market competitively the economic impact is obvious.

105. The shifting pattern from rail to alternative transport, even if the result is a small saving to the shipper, is bound to reduce transportation employment in Moncton.

106. For details of information see following pages (Table I)

TABLE I

SUMMARY INFORMATION OF EFFECTS OF NEW NON-CARLOAD RATES ON INDUSTRIES SHIPPING FROM AND THROUGH MONCTON  
( ) Indicating Regional or National Shipping-Cost Problems

No.	Type of Industry	No. of Employees	Market Area	Effect of Non-Carload Rates	Notes of Explanation
1.	Engine Rebuilders.... (REGIONAL)	70	67% sales, NB, NS, PEI 33% sales Newfoundland	Increased prices Newfoundland freight increase too much to bear	Largest rebuilder east of Montreal. No alternative mode of transport to Newfoundland. Must meet competition from Ford and others from central Canada, who may use water transport to Newfoundland at less cost. Ability to maintain operations with present employees depends upon economic transportation to Newfoundland for one-third of total volume. Service time is also an important factor, dependent on rail for this share of volume. Freight cost annually are in excess of selling expenses, and equal approximately 5% of selling price.
2.	Metal Fabrication.....	135	NB, NS, PEI	Increased freight on tanks up an average of 78 to 148%	Tanks account for 50% of production. Freight on 200 gallon tanks (under new rates and Weight Density Rule) increase 123% to Halifax, 112% to Saint John; on 500 gallon tanks increase is 113% to Halifax, and 104% to Saint John; on 1,000 gallon tanks increased is 78% to Halifax, 70% to Saint John, and 110% to Sydney. Alternative is truck transport, but their rates considering pick-up and delivery factors have been increased to almost the same level. Ability to maintain operations depends on freight service and costs at economic level. Quebec manufacturer, through factors including freight saving on raw material, quotes surplus production in the region at near cost.
2.	(REGIONAL)				
3.	Distribution of Plumbing & Heating equipment (NATIONAL-REGIONAL)	40	NB, NS, & PEI	Incoming LCL from Canadian suppliers up 85%. In region freight cost increased up to 90% over old rates.	Difficulty in obtaining satisfactory service on LCL 200-600 lbs shipments from suppliers outside region and increase in freight is 85%. New rates are too costly and Pool-car too slow. Difficulty in reaching Moncton, N.B. with satisfactory truck service. Freight on tanks and furnaces in region have increased under new non-carload rates up to 90%.
4.	Manufacturers of Luggage (NATIONAL-REGIONAL)	80	Atl. Provinces (25%) Central Canada (75)	In region freight costs increased 95 to 137% in central Canada increase is 112 to 193%	Quebec competition can reach Halifax by Pool-car at less freight cost. Prices in central Canada set by competitor must be met, and this is impossible under new non-carload rates and Density Rule. Example: Piggyback rate to Toronto increased by 120%
5.	Manufacturers of Electric Ranges	370	Atl. Provinces (35%) Central Canada (65%)	New Tariff 100 rates will increase freight rates in Atlantic Provinces by av. of 123%. For freight rates to Central Canada, See Appendix V, Pages 3 and 4	To markets in Halifax and Saint John, alternative modes (truck) when available is higher than new non-carload rate above 500 lbs. Rates from Special stove rate used in the past have increased average of 123%. In addition this firm has an additional burden of \$50,000 per year on raw material freight compared to Ontario location.



TABLE I

SUMMARY INFORMATION OF EFFECTS OF NEW NON-CARLOAD RATES ON INDUSTRIES SHIPPING FROM AND THROUGH MONCTON  
( ) Indicating Regional or National Shipping-Cost Problems

No.	Type of Industry	No. of Employees	Market Area	Effect of Non-Carload Rates	Notes of Explanation
6.	Textiles..... (NATIONAL-REGIONAL)		Atl. Provinces 25% Central Canada 75%	In Atl. Provinces new non-carload rates increase freight costs equal to profit.	98% of raw material comes from central Canada and freight costs add to burden. Customers specify "CN Express" for shipments. Because of time and delivery no alternative mode can compete. Unable to arrange alternative mode to Quebec and Ontario. Freight increase to Toronto is \$4.65 on sales value of \$12.00 due to new Density Weight Rule, and this completely offsets Net Profit. Cannot reach Newfoundland market by any other method of transport. Average weight of products is 21 lbs per cu. ft.
7.	Ranges & Heaters..... (NATIONAL-REGIONAL)	300	Atl. Prov. 40% Central Canada 60%	Increase freight in Atl. Prov. up to 60%. Increased freight in Central Canada up to 35%	At present non-carload rates effective in Atlantic Provinces considering all available means of bargaining are up by 10 to 60%. Best rates available to Quebec and Ontario result in increases up to 35%.
8.	Distribution of drugs.. (REGIONAL)	5	Atl. Prov.....	Increase in non-carload rates have caused truck increases of 33%.	To Newfoundland only method suitable is Air, can use trucks only in summer because of heat requirements of products. New Tariff 100 is of major concern because of Weight Density Rule, as most shipments are in range of 25-75 lbs and average weight is under 10 lbs per cu. ft.
9.	Distribution of small machinery parts (REGIONAL)	12	Atl. Prov. (90% by LCL) (10% by Air and Bus)	New non-carload rates increase freight cost 66-67%	Company are now doing a complete study of effect of rates from Head Office. Impossible to serve customers in area without rail LCL, some may be served by inter-linked trucks but time lag places limits, based on urgency of service.
10.	Printing Ink..... (REGIONAL)	4	Atl. Prov.....	Switched to truck, but rates increased in proportion to rail-up to a minimum of 30%	Truck service not satisfactory because of limitations in Provinces and time loss at inter-line points.
11.	Distribution of electrical equipment and white goods (REGIONAL)	17	Atl. Prov.....	Switched to trucks, rates increased to rail level.	Constantly at work to arrange suitable truck service. This may be impossible in some areas, incl. Northern N.B. and Cape Breton.
12.	Various Pharmaceutical materials (REGIONAL)	25	Atl. Prov.....	Always used trucks since rail service product protection was inadequate.	Giving serious consideration to fact that pool-car rates are cheaper from Ontario and Quebec to Halifax than non-carload from Moncton.
13.	Paper products distributor (REGIONAL)	5	NB & PEI.....	Ship entirely by truck-Rates have increased since November by 40%	Pool-car from Ontario and Quebec to Maritime points was cheaper even before new rates. Competitors have advantage.

14. Drugs Distributor. .... (REGIONAL)	2	Atl. Prov. ....	Rates up 35% since November 1967	Head office in central Canada are studying full effects of new rates. Many products are shipped under specific drug regulations, which dictate methods of transport.
15. Manufacturer of baked goods (REGIONAL)	75	Atl. Prov. ....	Ship 20% of volume to Nfld. Switched to trucks because of service. Rates increased by one-third since late 1967	If new non-carload rates become only rail rates available Company will lose Nfld market—20% of sales and will be required to reduce operations substantially.
16. Manufacturer of wire fence (REGIONAL)	36	NB, NS, & PEI	Freight costs up 60% since 1967	Many customers dictate mode of shipment. Rail in many areas is not satisfactory. Truck rates have increased in proportion to rail. Just moving into new plant in Moncton and are concerned about ability to meet competition by increased freight cost.
17. Confectionery distributors (REGIONAL)	22	NB, NS, & PEI ....	Switched to trucks entirely last year except Cape Breton area. Freight costs up 50-150%	Company is considering consolidation of shipments by pool-car from central Canada which may reduce volume of movements from Moncton.
18. Tire Distributor. .... (REGIONAL)	18	NB, NS, & PEI ....	Company policy neutralizes cost on Central basis	Company has been able to set up system where products are sold at same price across Canada, freight costs are handled at Head Office in Toronto.
19. Tea & Spice Mfrg. and distributor	230	Atl. Prov. ....	Increase under new rates up 60-143%	Increase in regional freight costs using truck as compared to LCL previous to September 5, 1967 is 60%. Increase of new non-carload rates are used is 143%. There is no guarantee that truck rates will not steadily increase to rail level.
20. Garment Mfrg's. ....	310	Canada. ....	LCL rates have increased 25%	Concerned about the size of the LCL rate increase. In effect the Railways have created a monopoly situation for the Truck-er because the increase in LCL rates makes rail use for non-carload quantities prohibitive. Questions the basis of the railways decision regarding LCL rates, since this executive thought rail should be able to move less carload quantities of freight more efficiently than other carriers for medium to long hauls.
21. Home and Institutional Bedding (REGIONAL)	48	Atl. Prov. ....	40% of Total shipments have to be Rail—LCL. This has resulted in an estimated total freight increase of 31% and an LCL increase of 77%	The danger to the Regional Manufacturer is that merchants throughout the Region have an opportunity to bring in either (1) pool-cars of directly competing National products from central Canada which are generally better selling brands than those produced locally and/or (2) pool-cars of directly competing products plus other types of manufacture which can easily be pooled in central Canada because of a wide secondary manufacturing base. In these instances it is possible to receive goods from outside the region with smaller freight charges and lower rates than shipments entirely within the Region. In addition to smaller total costs of pool cars ex central Canada into the Atlantic Region compared with Inter-Regional L.C.L. costs, the service on pool cars is generally regarded as superior.

TABLE I  
SUMMARY INFORMATION OF EFFECTS OF NEW NON-CARLOAD RATES ON INDUSTRIES SHIPPING FROM AND THROUGH MONTON  
( ) Indicating Regional or National Shipping-Cost Problems

No.	Type of Industry	No. of Employees	Market Area	Effect of Non-Carload Rates	Notes of Explanation
22.	Boat and Plastics Mfg's (NATIONAL-REGIONAL)	82	Atl. Prov. & Central Canada	Rates up across Canada to 300%	New rates triple freight costs to dealers across Canada, by non-carload shipments. Density Rule is particular problem and rates are too high as well. "We will certainly lose sales"
23.	Mfg. of Potato Chips.. (REGIONAL)		Atl. Prov.....	Nfld. is 20% of market. New non-carload rates make it impossible to reach this market in competition.	Water rates from Montreal will remove this market from manufacturers of "bulk" light weight products in the Maritime.



# EFFECTS OF CARLOAD RATES ON INDUSTRIES LOCATED IN THE MONCTON AREA

107. The matter of relative carload rates effective in the Atlantic Provinces as compared to effective carload rates in central Canada is subject to intensive study and analysis in order to form any conclusions supported by statistics. One major contributing factor is that of specific carload movements by non-competitive rates in one area against competitive charges in another area. It is not uncommon for a commodity moving from the Atlantic Provinces to central Canada to move on a non-competitive rate and a similar product moving within the central Canadian market to move on an agreed charge or competitive rate (see paragraph 65 re Maritime Freight Rate Act).

108. The volume of movements of freight by industries has a direct effect on the level of freight rates which can be negotiated in central Canada. This strength to negotiate is available to higher-volume manufacturers in central Canada but usually not to the smaller-volume manufacturers in the Atlantic Provinces, mainly because of the lack of volume of movements and the relative lack of competition in transportation. Among the variables which can be used to provide better rates are; length of cars (longer than normal cars for same rate), multiple cars (two cars for the price of one), and negotiated rates based on a particular industry's total volume of movement.

109. The comparisons of carload rail rates on certain products from the Atlantic Provinces to Toronto as compared to the rate from central Canadian points to Toronto will illustrate the comparative cost disadvantage to the Maritime shipper. In these examples distance is not a factor of comparison (see Table II). These comparisons include the adjustments under the Maritime Freight Rates Act.

110. In the case of Steel Bars Amherst, N.S. to Toronto compared to shipment from Montreal to Toronto, the disadvantage to the Amherst shipper is \$4.20 per ton to \$5.80 per ton depending on the minimum carload weight. This means that a manufacturer in Toronto could obtain steel bars by water on an import basis much cheaper than from the Atlantic Provinces.

111. In the case of Electric Stoves from Sackville to Toronto as compared to the rate

from Hamilton to Toronto, the disadvantage is \$.14 per cwt. for the Maritime shipper. This has developed from an advantage of \$.56 per cwt in 1953 in spite of the constant concern with costs facing the Maritime shipper in this period.

112. In the case of Plaster from Hillsboro, N.B. to Toronto as compared to rate from Montreal to Toronto, the disadvantage to the Maritime shipper is \$3.20 per ton.

113. An examination of the application of changes in these illustrations leads to the observation that few people in industry are able to follow changes implemented or interpret the results of such changes until it is too late to effectively offset disadvantages.

114. It will be noted that in all cases illustrated the Maritime disadvantage lessened in 1967. This is due to the fact that during 1967 both competitive (including agreed charges) and non-competitive rates applying between points in central Canada were subjected to increases only to the competitive rate increases (including Agreed Charges). Since the rates used are commodity rates, these were not increased by the commodity rate increase effected on May 4, 1967, under CFA Tariff 85. This increase did not apply to the Atlantic Provinces due to Transportation Legislation passed in March 1967, which placed a "two-year rate freeze" on carload traffic moving on commodity rates from, to, or within the Atlantic Region. This "rate freeze" will be lifted in March 1969, at which time Atlantic Provinces rates could increase under CFA Tariff 85. In the interim other increases could add to this factor.

115. If the CFA 85 increase had been applied (or will be in the future) to rates on Steel Bars from Amherst to Quebec, Que. the 40,000 lb rate would be \$13.20 per ton instead of \$12.00 per ton, or show a differential of -\$7.00 instead of -\$5.80 when compared to the rate from Montreal. The 60,000 lb. rate would be \$11.60 per ton instead of \$10.40 or a differential of -\$5.40 instead of -\$4.20.

116. If the CFA 85 increase had been applied to the rates on Electric Stoves from Sackville, N.B. to Montreal, the rate would be \$.79 per cwt instead of the present \$.72 per cwt., which would yield a differential of -\$0.11 instead of -\$0.04 for 24,000 lb. movements and -\$0.21 instead of -\$0.14 for movements of 30,000 lbs. when compared with rates from Hamilton, Ont.

117. In connection with the schedule on Steel Bars, in addition to the rate of \$6.20 per ton shown, minimum weight 60,000 lbs. the following competitive rates for higher minima are available from Montreal to Quebec City: 27 cents per cwt. on 80,000 lbs; 26 cents per cwt on 100,000 lbs. and 25 cents per cwt. on 140,000 lbs.\*

118. These are examples of cases which

contribute to the locational disadvantage of the region for industry, and directly affect the present and future economy of the Moncton area by restrictions on maintaining present operations and expansion of production and employment of present industries, as well as vitally affecting the primary locational decisions for prospective secondary manufacturing industries.

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\*Maritimes Transportation Commission.

COMPARISON OF THE CARLOAD RAIL RATES ON STEEL BARS FROM AMHERST, N.S., TO TORONTO, ONT., WITH THE CORRESPONDING RATES FROM MONTREAL TO TORONTO, ONT.

Date	Particulars	From Amherst, N.S.			From Montreal, Que.			Differentials			
		Rates		Rates Col. B	Rates		Rates Note 2	Amherst Disadvantage = -		Amherst Advantage = +	
		Col. A	CLM		CLM	Col. C	Col. D	Col. A	Col. B	Col. C	Col. D
								over	over	over	over
								Col. C	Col. D	Col. C	Col. D
								(lbs)	(lbs)		
Jan. 1, 1953	9% Increase (CFA, Tariff No. 74-B)...	1040	40,000	900	60,000	940	40,000	—	—	—	—
Mar. 16, 1953	7% Increase (CFA Tariff No. 74-C)...	1120	40,000	960	60,000	1000	40,000	—	—	—	—
Oct. 11, 1954	Establishment Motor Truck Competitive Rate from Montreal.....	1120	40,000	960	60,000	550	40,000	—	—	—	—
Jul. 3, 1956	7% Interim Increase (CFA Tariff 83)...	1200	40,000	1020	60,000	580	40,000	—	—	—	—
Jan. 1, 1957	11% Increase in Lieu of 7%.....	1240	40,000	1060	60,000	620	40,000	—	—	—	—
Jul. 1, 1957	Additional MFRA Reduction from Amherst.....	1220	40,000	960	60,000	620	40,000	—	—	—	—
Jul. 9, 1957	Correction MFRA Reduction.....	1120	40,000	960	60,000	620	40,000	—	—	—	—
Dec. 1, 1958	17% Increase (CFA Tariff No. 84)...	1320	40,000	1120	60,000	720	40,000	—	—	—	—
Aug. 1, 1959	10% Increase Adjustment (CFA 84-A)...	1240	40,000	1060	60,000	720	40,000	—	—	—	—
May 6, 1960	8% Increase Adjustment (CFA 84-A)...	1200	40,000	1040	60,000	720	40,000	—	—	—	—
Nov. 16, 1964	Reduction in Motor Competitive Rate from Montreal.....	1200	40,000	1040	60,000	520	60,000	—	—	—	—
Oct. 10, 1966	10% Increase in Competitive Rates....	1200	40,000	1040	60,000	580	60,000	—	—	—	—
Sept. 5, 1967	Increase in Competitive Rates.....	1200	40,000	1040	60,000	620	60,000	—	—	—	—

NOTE 1: Rates apply from January 1 to December 31 of each year.  
NOTE 2: Rates apply from April 15 to November 30 of each year.

EXPLANATION OF REFERENCE MARKS AND ABBREVIATIONS:

MFRA: Maritime Freight Rates Act  
C.L.M.: Carload Minimum Weight

TARIFF REFERENCES:

CNRys Tariff C.1. 36, C.R.C.E. 1246  
CNRys Tariff C.1. 79, C.T.C.E. 2047  
CNRys Tariff C.1. 79-1, C.T.C.E. 3909

CNRys Tariff C.1. 41, C.R.C.E. 1283  
CNRys Tariff C.1. 70, C.T.C.E. 1870  
CNRys Tariff C.M. 195, C.T.C.E. 2115



COMPARISON OF THE CARLOAD RAIL RATES ON ELECTRIC STOVES FROM SACKVILLE N.B. TO TORONTO, ONT.,  
WITH THE CORRESPONDING RATES FROM HAMILTON, ONT., TO TORONTO, ONT.

Date	Particulars	Fr. Sackville, N.B.				From Hamilton, Ont.				Differentials			
		Rates		CLM		Rates		CLM		Col. A over Col. B		Col. A over Col. C	
		Col. A			(lbs)	Note 1 Col. B	Note 2 Col. C		Note 3 Col. D	Col. A over Col. B		Col. A over Col. C	
Dec. 14, 1953	Establishment Motor Truck Competitive Rate from Sackville.....	61		24,000	(lbs)	117	—	20,000	74	+56	—	+13	
Jan. 17, 1955	Establishment Motor Truck Competitive Rate from Hamilton.....	61		24,000		47	—	24,000	—	-14	—	—	
Feb. 8, 1955	Establishment Additional Motor Truck Competitive Rate from Hamilton.....	61		24,000		45	—	30,000	—	-16	—	—	
Jul. 3, 1956	7% Interim Increase (CFA Tariff 83).....	65		24,000		47	—	30,000	—	-18	—	—	
Jan. 1, 1957	11% Increase in Lieu of 7%.....	68		24,000		47	—	24,000	—	-21	—	—	
						45	—	30,000	—	-23	—	—	
Jul. 1, 1957	Additional MFRA Reduction from Sackville....	62		24,000		47	—	24,000	—	-15	—	—	
Dec. 1, 1958	17% Increase (CFA Tariff 84).....	73		24,000		45	—	30,000	—	-17	—	—	
May 6, 1960	8% Increase Adjustment CRA 84A (resulting in Commodity rate becoming lower than Comp. Rate).....	72		24,000		47	—	24,000	—	-26	—	—	
						45	—	30,000	—	-28	—	—	
Jul. 29, 1963	Increase in Competitive Rate Hamilton-Montreal	72		24,000		47	—	24,000	—	-25	—	—	
Nov. 2, 1964	Increase in Competitive Rate Hamilton-Montreal	72		24,000		51	—	30,000	—	-21	—	—	
May 4, 1964	Competitive Rate Hamilton to Montreal transferred to rail agreed charge.....	72		24,000		47	—	30,000	—	-25	—	—	
						57	—	24,000	—	-15	—	—	
Jul. 19, 1966	Increase in Agreed Charge Rate.....	72		24,000		50	—	30,000	—	-22	—	—	
May 4, 1964	Competitive Rate Hamilton to Montreal transferred to rail agreed charge.....	72		24,000		57	—	24,000	—	-15	—	—	
Jul. 19, 1966	Increase in Agreed Charge Rate.....	72		24,000		61½	—	30,000	—	-22	—	—	
Sep. 29, 1967	Increase In Agreed Charge Rate (10%).....	72		24,000		52½	—	24,000	—	-10½	—	—	
						68	—	30,000	—	-19½	—	—	
						58	—	24,000	—	-4	—	—	

NOTE 1: Rates apply from January 1 to December 31 of each year.  
NOTE 2: Rates apply from April 15 to November 15 of each year.  
NOTE 3: Rates apply from April 15 to November 30 of each year.

EXPLANATION OF ABBREVIATIONS:

MFRA: Maritime Freight Rates Act  
CLM: Carload Minimum Weight

TARIFF REFERENCES:

CNRys. Tariff CM 39, C.R.C. E. 940  
CNRys. Tariff CM 73, C.R.C. E. 1235  
CNRys. Tariff CM 73-2, C.T.C. E. 3762  
CNRys. Tariff CM 73-3, C.T.C. E. 3963  
CNRys. Tariff CM 300-15, C.T.C. E. 4014

CNRys. Tariff O 24, C.R.C. E. 375  
CNRys. Tariff C 39, C.R.C. E. 1539  
CNRys. Tariff N. 35, C.R.C. E. 1727  
CNRys. Tariff CM 195, C.T.C. E. 2115  
Canadian Freight Classification No. 19, C.T.C. 983  
C.T.C. Agreed Charge No. 2069

COMPARISON OF THE CARLOAD RAIL RATES ON WALL PLASTER FROM HILLSBORO, N.B. TO TORONTO, ONT. WITH  
THE CORRESPONDING RATES FROM MONTREAL, QUE. TO TORONTO, ONT.

RATES AND DIFFERENTIALS IN CENTS PER 100 LBS.

Date	Particulars	From Hillsboro, N.B.		From Montreal, Que.		Hillsboro Dis- advantage = Differentials Col. A over Col. B	
		Rates Col. A	C.L.M. (lbs)	Rates Col. B	C.L.M. (lbs)	Col. A	Col. B
June 30, 1927	Prior to M.F.R.A.	33	50,000	19	50,000	-14	
Jul. 1, 1927	M.F.R.A. Reduction	30	50,000	19	50,000	-11	
Apr. 8, 1948	12% Increase (C.F.A. Tariff No. 71)	36	50,000	23	50,000	-13	
Oct. 11, 1949	8% Interim Increase (C.F.A. Tariff No. 72)	39	50,000	25	50,000	-14	
Mar. 23, 1950	16% Increase in Lieu of 8%	42	50,000	27	50,000	-15	
June 16, 1950	20% Increase in Lieu of 16%	43	50,000	28	50,000	-15	
Jul. 26, 1951	12% Interim Increase (C.F.A. Tariff No. 74)	48	50,000	31	50,000	-17	
Feb. 11, 1952	17% Increase in Lieu of 12%	50	50,000	33	50,000	-17	
Jan. 1, 1953	9% Increase (C.F.A. Tariff No. 74-B)	55	50,000	36	50,000	-19	
Mar. 16, 1953	7% Increase (C.F.A. Tariff No. 74-C)	59	50,000	39	50,000	-20	
Jul. 3, 1956	7% Interim Increase (C.F.A. Tariff No. 83)	63	50,000	42	50,000	-21	
Jan. 1, 1957	11% Increase in Lieu of 7%	65	50,000	43	50,000	-22	
Jul 1, 1957	Additional M.F.R.A. Reduction from Hillsboro.	62	50,000	43	50,000	-19	
Dec. 1, 1958	17% Increase (C.F.A. Tariff No. 84)	73	50,000	50	50,000	-23	
Aug. 1, 1959	10% Increase (C.F.A. Tariff No. 84-A)	68	50,000	47	50,000	-21	
May 6, 1960	8% Increase (84-A) In Lieu of 10% Increase (84-A)	67	50,000	46	50,000	-21	
Nov. 28, 1966	Addition of Rates for Higher Minima.	67	50,000	46	50,000	-21	
		63	80,000				
		61	100,000				
May 4, 1967	Increase (C.F.A. Tariff No. 85)	67	50,000	51	50,000	-16	
		63	80,000				
		61	100,000				

EXPLANATION OF ABBREVIATIONS:

M.F.R.A.: Maritime Freight Rates Act  
C.L.M.: Carload Minimum Weight

TARIFF REFERENCES:

CNRys. Tariff C.D. 53, C.R.C. E. 1153  
CNRys. Tariff C.D. 38, C.R.C. E. 1237  
CNRys. Tariff C.D. 105, C.R.C. E. 1804  
CNRys. Tariff C.D. 105-1, C.R.C. E. 2526

CNRys. Tariff C.D. 105-2, C.T.C. E. 3885  
CNRys. Tariff C.D. 100, C.T.C. E. 1680  
CNRys. Tariff C.D. 100-1, C.T.C. E. 4066

SUMMARY OF EFFECTS OF NEW  
NON-CARLOAD RATES ON  
RETAILERS IN MONCTON

119. The implementation of the new non-carload rates and tariff E.T.A. 100 has an immediate effect upon costs of retail goods in Moncton and the Atlantic Provinces. First, while it is still possible to use class rates with cartage pick-up arranged by the retailer, this imposes an additional cost, and if alternate transport can be arranged the rates are increasing toward the level of the new non-carload rates.

120. These increases to retailers are impossible to offset because of the nature of the retail trade. Supplies of items of clothing, shoes, furniture and similar items, are purchased by bookings with manufacturers or manufacturers agents. Deliveries are dependent upon availability in relation to bookings and production schedules. In many cases shipments must be arranged in small quantities in order to meet seasonal deadlines and maintain retail stock in relation to demands on factory inventories. Again, in many cases the retailer purchases changing lines in minimum quantities, and after reasonable trial, must order for rush deliveries in smaller

quantities than the economy on minimum rates under the new Tariff allow.

121. Comparatively small total volume of movements of retail shipments hardly stimulate interest on the part of truckers and combined with the time lost through inter-lining contribute to a greater degree of dependence on rail for these shipments. Whether or not shipments are made on a prepaid or collect basis, the increases still operate as extra costs to the retailer which must be passed along to the consumer, and in the area where per-capita income is still less than other areas of Canada.

122. There is a strong case for provision of rail non-carload services for the immediate future as near as possible to the scale of the old Class rates including pick-up and delivery, with cancellation of the new non-carload rates and the rules of E.T.A. Tariff 100 so that such rates and rules do not influence upward movements of the rates of competing modes of transportation. Under these conditions, increases in freight costs will result, but likely not to the degree of that imposed by the implementation of the new rates.

123. For details of random samples of increased freight costs to Moncton retailers see Table III.

EXAMPLES OF INCREASED, FREIGHT COSTS TO RETAILERS IN MONCTON

Type of Retail Outlet	Item	Shipped from	% of Supply by LCL	% Increase in Freight Cost
			%	%
Drug Store.....	12 items.....	Ontario.....	100	71
Jeweller.....	China.....	Montreal.....	100	112 (1)
	3 Jewellery items.....	Montreal.....	100	94 (1)
Mens Store.....	Suits.....	Montreal.....	100	63
Men and Boys.....	Mens Jackets.....	Montreal.....	100	42
	Boys Shirts.....	Montreal.....	100	53
	Boys Sweaters.....	Montreal.....	100	58
Hardware.....	Small Tools.....	Toronto.....	100	82
Shoes.....	Mens Shoes.....	Toronto.....	100	262
Furniture.....	Electric Stove.....	Ontario.....	100	123
	Refrigerator.....	Ontario.....	100	60
	Washing Machine.....	Ontario.....	100	70
Furniture.....	Bedroom Suite.....	Montreal.....	100	80
	Chesterfield Suite.....	Montreal.....	100	34

(1) Incl. insurance in transit

Television Picture Tubes prior to October 5, 1967 were shipped F.O.B. Moncton at a retailers cost of twenty-six dollars, sixty-five cents (\$26.65), after October 5, 1967 the same tube prepaid to Moncton cost the Moncton retailer thirty-two dollars and five cents (\$32.05) an increase in total cost of 20%. The retail price of that T.V. tube increased from \$42.00 to \$48.90. The manufacturers gave "increased costs" as their reason for the price increase. There is little doubt that the cost of a T.V. picture tube weighing no more than two to three pounds per cubic foot, and shipped in less carload quantities is increased to a great extent by the new non-carload rates.



## CONCLUSIONS AND RECOMMENDATIONS

### A. CONCLUSIONS

124. The necessity of Federal financial support to the railways (then the primary transportation system) for the purposes of affording business located in the area competitive access to the Canadian market was recognized by the Duncan Commission in 1926 and endorsed by the Canadian Parliament through enactment of the Maritime Freight Rates Act in 1927.

125. The recognition of the necessity to continue this principle was evident from the recommendations of the Royal Commission on Canada's Economic Prospect in 1957, leading to the additional subsidy implemented in 1958.

126. It has been shown in this brief that the Maritime Freight Rates Act has not fulfilled the original purpose so far as shippers in the area are concerned. This purpose is expressed in the preamble to the Maritime Freight Rates Act, 127 (see paragraph 33).

127. The MacPherson Commission considered the Maritime Freight Rates Act as *part of National Policy*, and gave emphasis during their investigation to how this Act *served in the overall national transportation policy*. The recommendations of this Commission, which formed a basis for the National Transportation Act of 1967, included:

(a) that subsidies on west-bound shipments be extended to all modes of transportation.

(b) that the subsidy on movements wholly within select territory be abolished, except the subsidy on movements within, to and from Newfoundland and select territory.

128. The National Transportation Act, forming the basis for the new Canadian Transportation Policy provides for the following: (items (a) to (e) are followed by brief explanations)

(a) Freedom to railways, within the maximum and minimum rate regulations, to set rates at whatever level commercial pressures allow.

1. At the same time provision has been made for a two year rate freeze on *non-competitive rates* laid down in the proposed revision of Section 335 of the amended Railway Act. Under this amendment all railway rates must be compensatory, i.e. the rate must

cover the variable cost of the movement. While limited information is available it is difficult to determine whether there are rates in the Atlantic Provinces which are not compensatory. (Because of the new policy any such rates would have to be raised).

2. It is unlikely that *competitive rates* in effect at present will change immediately since they have always been compensatory. The exception to the case may be the system of "arbitraries" which has afforded the Maritimes some distance-cost compensation compared to central Canada. However, this is indefinite because the system of "arbitraries" may not be considered in conflict with the amended Railway Act providing the through rate from a point west of Montreal to Moncton is compensatory.

(b) Under the proposed legislation maximum rate regulation will be confined to those shippers who do not have an alternative effective mode of transport. These shippers are "captive shippers" and are defined as "those shippers for which in respect of those goods there is not alternative effective and competitive service by a common carrier other than a rail carrier or a combination of rail carriers". This is a narrower definition than was recommended by the MacPherson Commission.

1. "Comments on whether the maximum rate formula embodied in the proposed Section 336 of the Railway Act will, in fact, result in adequate rate protection for the captive shipper is severely limited by the refusal of the railways to release examples of cost figures. It is therefore impossible to determine what is the relationship between the present level of rates laid down by the maximum rate formula".

(c) Under the National Transportation Bill the Freight Rates Reduction Act subsidy would be replaced by a general subsidy of \$110 million which would be phased out by 1975. This, along with increases in operating costs will likely have a substantial effect upon increased rail rates in the Atlantic Provinces.

(d) The National Transportation Act does not affect any of the clauses of the Maritime Freight Rates Act but it may enable significant change to be made between the rate structure in effect in the Atlantic Provinces

<sup>1</sup> Atlantic Provinces Transportation, Vol. V, The Economist Intelligence Unit.

and that of other parts of Canada. It is extremely difficult with information available, to determine whether or not traffic moving at competitive rates and agreed charges is moving in the Atlantic Region at comparable rates with central Canada. Under the new regulations class and commodity rates are not necessarily required to be the same as in other parts of Canada. If such changes resulted from the decision that traffic in the Atlantic Provinces could bear a higher increase than in other parts of Canada, the result would be further erosion of the benefits of the Maritime Freight Rates Act, which in the opinion of A. W. Currie, were completely eroded as long ago as 1948<sup>2</sup>. Some legal safeguards are in evidence, however, and they include Section 16 of the New Bill and Section 7 of the Maritime Freight Rates Act (reference paragraph 32-33 Potato Case). Another basis of possible protection under the Maritime Freight Rates Act is under Section 2 (b) and is tied to operating costs of the railways.

(e) Under the new Transportation Act, rates and rules no longer require the prior approval of the board of Transport Commissioners. Thus new non-carload rates became effective in the Atlantic Provinces on September 5, 1967. *This closely followed a 6 per cent increase in LCL rates the previous May.* With this new tariff all non-carload express rates were cancelled and LCL competitive rates were cancelled. The published charges for cartage were cancelled on the same date. *After September 5, 1967, the railways will no longer provide cartage service for non-carload traffic except when such traffic is assessed at the new non-carload rates. Other less than carload class and commodity rates have not yet been cancelled and shippers may utilize these rates providing the consignee and shipper perform the pick-up and delivery services.*

1. Under the new tariff E.T.A. Tariff 100 two different methods of assessing changes are set out. If a shipment is less than 30 cubic feet in volume and weights less than 300 lbs. the rates are stated as a charge in cents per shipment of one piece or package plus an increased charge of 20 cents for each additional package. Shipments under 300 lbs. in weight but more than 30 cubic feet in volume will be assessed at rates applicable on 300 lbs.

or more. Further charges are made on a scale of length and girth of the package. These provisions include a minimum 10 lbs. per cu.ft. Weight-Density Rule which further increases the cost of these services on specific items in great proportion.

129. To illustrate the impact of the increase in rate and the Tariff E.T.A. 100, reference is drawn to the emphasis and priority given to response by twenty-three major industries in Moncton, Sackville, Amherst, Truro and New Glasgow (see Table D. Non-carload freight rate increases compounded by the density rule plus unit charges, insurance fees and the extension of the size of package to its nearest cubic displacement shape, have resulted in a range of increases from 25 per cent to 250 per cent over former LCL Class rates. In the case of these twenty-three industries contacted an estimated total freight increase averaged 56 per cent. This has led to the question being asked by industrial managers and owners in the Region; "If it was considered expedient for the railways to withdraw from non-carload freight traffic, because of costs and/or volume, either for a region or portion of a region, why not simply announce the intention and set a date to allow alternative modes of transportation to fill the gap in services? Instead the new rate increases have virtually created a monopoly situation for the alternative carriers by creating a prohibitive cost for such services. The result is hardly within the clearly expressed intent of the National Transportation Act to provide a means of open competition for transportation services."

130. The new non-carload rates add further hardship to distributors and manufacturers alike in the area. In the case of some distributors there is no longer a clear case for profitable expansion and amortization of investment in warehouse facilities to service the whole Atlantic Region from Moncton. In the case of the manufacturer, increases in rates of competitive modes of transportation following the new rail rates (or using the new rail rates as an alternative), applied to the type and scale of operations, weight heavily on the costs of the operations.

131. The combination of the foregoing with the complete erosion of the benefits of the Maritime Freight Rates Act necessitates cancellation of the new non-carload rates under Tariff E.T.A. 100 and the development of a

<sup>2</sup>"Freight Rates and Regionalism", The Canadian Journal of Economics and Political Science 1949, 14:4:433.



policy applicable to the area which will restate the intended benefits of the Maritime Freight Rates Act.

132. Priority should be given to a careful examination of the quality of regional passenger service, passenger service revenue, and other related factors to determine the justification and economic feasibility of re-establishment of Regional Car Shops in Moncton.

133. (a) In view of the limited time since the enactment of the National Transportation Bill, and the difficulties in evidence concerning administration, regulations, and implementation; including the establishment of uniform cost procedures by which the railways may develop acceptable formulae for setting rates, the authorities should recognize that transportation policies and regulations in Canada may be too complicated. This statement can be supported by the fact that the railways have inherent differences in the accounting methods, and it has been until this time, difficult to arrive at a degree of fixed and variable costs. These are two of the most important factors on which rates will be established under present legislation.

(b) Would it be more practical and more economical to place immediate emphasis on the development of a policy and plan to provide freight and passenger services for all Canada on a uniform rate basis, similar to the postage system? (When posing this question consideration is given to the necessity of utilizing other transportation facilities in areas where railway service is now or may in the future be inadequate).

134. A careful review of transportation in the Atlantic Provinces will prove that they have always received certain concessions which were intended to reduce the effect of distance to central Canada. When the favourable railway rate structure disappeared between 1912 and 1923, the Maritime Freight Rates Act of 1927 adjusted the rates within the Maritimes and to central Canada. When the National Freight Rates Policy was declared in 1951, this area was exempt from National Transportation Policy, thus by excluding the Atlantic Provinces from equalization on class rates, they were effectively shielded from further increases in freight rates which would have resulted in the region.

135. *The Atlantic Provinces have never been included in National Transportation*

*Policy and have always been considered for special treatment and/or adjustments in efforts to reduce their isolation from central Canada by location and distance.*

136. There is not sufficient evidence of economic progress at this time to justify a change in this principle whether considering outgoing shipments from the region, supply of raw materials to local manufacturers, or non-carload freight costs to shippers located in the region.

137. The National Transportation Bill gives emphasis to the use of competition as the primary means for effecting the optimum allocation and use of transport resources. It is assumed that under such increased competition, the freight rates should reflect the costs of services. This being the case the costs of the haul to and from the Atlantic Provinces should be reflected in the rate structure. *This is a complete reversal of the historic Federal Policy wherein measures were aimed at effectively reducing this distance.*

138. It should be noted that a large number of industries in which transportation costs have increased dramatically are operations which have received the benefits of loans from the Industrial Development Bank, or have been encouraged and assisted under Provincial Industrial Development Programs such as Industrial Estates, in Nova Scotia, and the Industrial Development Programs in New Brunswick.

139. With full regard to the foregoing conclusions, and the impact of changes in transportation policies and rates on the economy of the City of Moncton, the following recommendations are submitted for the consideration of the Parliamentary Committee on Transportation.

## 8. RECOMMENDATIONS

140. (1) That the implementation of the Bulk Density Rule (Tariff E.T.A. 100) based on 10 lbs per cubic foot and the new non-carload rates be cancelled until a planned transportation system is developed to meet Regional needs.

141. (2) That the particular freight costs disadvantage of Atlantic distribution and manufacturing industries in relation to their access to the Canadian market be recognized



by the Government of Canada, with particular reference to a National policy on Regional Development, to be reflected in Legislation amending the National Transportation Act. Such legislation to be based on the principles established by the Duncan Commission in 1927 and recognized by the Gordon Commission in 1957...Reference paragraph 31 "It separates completely considerations of National Public Policy from considerations of railway policy proper." (Duncan Commission) This is proposed as a possible alternative to the Maritime Freight Rates Act and not as a substitute for Regional Development Funds.

142. (3) That costs to the Atlantic Regional Shipper of shipments to Newfoundland be no higher than the water rate from Montreal to Newfoundland, and that costs of shipments from Newfoundland to the three other Atlantic Provinces be no higher than the costs of shipping by water from Newfoundland to Montreal.

143. (4) Since it is obvious that transportation requirements are variable by areas within the Region, and different modes of transportation may more adequately and more economically serve different areas of the region, a Transportation plan be developed around the most economical and best quality service to meet the requirements of each area, both for freight and passenger services.

144. (5) That subject to (4) careful study be given to the long-term National economic benefits of extending subsidies to all modes of transportation, *by areas within the Region*, in relation to the long-term costs of supporting the railway system as an essential national link.

145. (6) That the House of Commons Standing Committee on Transportation and Communications hold hearings in the Atlantic Provinces every two years to afford opportunities for shippers to make current problems known.

146. (7) That, due to the requirements of better understanding of Atlantic Region transportation problems on a continuing basis, at least four of the Transportation Commissioners under the new Act, be selected from the Region, with experience and qualifications given major consideration; and that the Commissioners should hold a public meeting in the Atlantic Provinces once each year.

147. (8) That, when priorities are developed for increased air cargo services to Newfoundland, and as demands in both passenger and air cargo services increase, immediate attention be given to expansion of the Moncton Airport in keeping with these demands. In fact, a review of the adequacy and efficiency of this system in the light of present volume of air cargo should be given more attention.

148. (9) It, should be emphasized that the intent was carefully expressed under Confederation to provide for development of Atlantic Ports. Any policy which operates to the detriment of such development directly retards the growth of the region. The policy of the Federal Government in assuming certain financial and operating responsibilities for the St. Lawrence Seaway must be considered in this light. That is, such policy operates to the detriment of Atlantic Ports, and Atlantic Regional Economic development. It should further be noted that in the E.I.U. Study of Atlantic Provinces Transportation the doubt was raised that provision of container services would offer much advantage to the Ports of Saint John and Halifax. E.I.U. thought that the competitive advantage of a container service would soon be eroded by a similar service established by the St. Lawrence River Ports. It is the recommendation of this brief that immediate assistance be given the Ports of Halifax and Saint John toward the provision of container services and other mechanization. Regardless of any advance the St. Lawrence Ports make toward containerization, the Atlantic Ports must maintain the most modern handling devices available in order to remain competitive with other Canadian and World Ports. Further, that the Railways be urged to enter into immediate negotiations with steamship companies to determine the establishment of a "unit train-landbridge" service from the Atlantic Ports to the North American market. The urgency is not solely related to uplifting the Atlantic economy but is prompted more by world competition.

149. (10) That, in view of the immediate urgency, the recommendations contained herein be acted upon with all possible haste, to avoid to the greatest degree any increased freight costs to shippers of non-carload quantities located in the region.

150. We trust the facts and recommendations presented in this brief will prove useful

and will serve to motivate the measures of action required to contribute to the solution of the transportation inequities in the Atlantic Provinces in the best economic interest of the Canadian Nation, within the broad frame-

work of a National Policy for Regional Development.  
Respectfully submitted,  
Mayor  
City of Moncton.

Appendix I

ANALYSIS OF THE CITY OF MONCTON ASSESSMENT RECORDS 1967

Total Assessment Value .....		\$ 294,877,500
Federal Properties .....	\$ 35,000,000	
Provincial Properties .....	19,000,000	
Municipal Properties .....	2,300,000	
Exempt Properties .....	21,478,000	77,778,000
<hr/>		
Real Estate .....	\$ 166,262,980	
Concessions .....	3,600,000	
Business .....	47,236,520	217,099,500
<hr/>		
		\$ 294,877,500
<hr/>		
Total Assessment Value for Manufacturing, Distributors and Transportation .....	\$ 111,436,520	
Percentage of Total Assessment Value (less exempt properties)		37.8%

NOTE: This includes assessment for railway properties which contribute to the City's taxes through arrangement with N.B. Government at the rate of .68 per \$100 of valuation.

Source: Province of New Brunswick Assessment Records City of Moncton.

Appendix II

ANALYSIS OF TOTAL INCOME AND EARNINGS FROM TRANSPORTATION  
EMPLOYMENT IN COUNTIES OF WESTMORLAND,  
ALBERT AND KENT 1965

	Total Income	Wages & Salaries
	<u>\$ (000)</u>	<u>\$ (000)</u>
1. Westmorland County .....	118,120	104,147
Albert County .....	14,321	12,643
Kent .....	10,708	9,584
	<u>\$ 143,149</u>	<u>\$ 126,374</u>
Source: Canada Taxation Statistics 1965.		
2. Wages & Salaries from Transportation Employment 1965 .....		28,175*
Source: Transportation Employers incl. CNR.		
3. Percentage of Total Wages & Salaries earned in Transportation employ- ment in Counties of Westmorland, Albert and Kent—1965 .....		22.3%

\* Does not include certain Executive Salaries impossible to estimate.



## APPENDIX III

## 1966 USAGE OF L.C.L. SERVICE PER PROVINCIAL POPULATION

	Newfoundland		P.E.I.		Nova Scotia		New Brunswick		Atl. Provinces		Quebec	
	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded
1st Quarter.....	9,872	13,385	503	1,485	15,718	18,557	23,472	22,942	49,565	56,369	42,516	40,598
2nd Quarter.....	7,730	14,211	1,013	1,949	11,708	17,446	14,946	15,427	35,397	49,033	45,799	42,074
3rd Quarter.....	9,040	16,239	101	3,094	11,208	14,784	15,497	15,441	38,846	49,558	34,301	29,362
4th Quarter.....	12,167	19,067	448	2,108	11,323	15,753	13,414	15,025	37,352	51,953	33,492	28,865
TOTAL.....	38,809	62,902	2,065	8,636	49,957	66,540	67,329	68,805	158,160	206,913	156,108	140,899
Total: Loaded and Unloaded.....	101,711		10,701		116,497		136,134		365,073		297,007	
Population (000).....	505		109		700		627		2,001		5,744	
Tons per Capita.....	.201		.098		.153		.217		.182		.051	
1st Quarter.....	77,882	85,284	17,669	15,214	27,907	30,070	14,238	14,949	17,352	21,931	269,721	264,415
2nd Quarter.....	82,999	87,140	19,362	13,806	30,948	34,051	17,260	12,858	20,106	29,131	271,153	268,093
3rd Quarter.....	50,360	57,373	20,552	16,719	24,794	26,918	20,729	21,294	18,574	20,907	223,793	222,131
4th Quarter.....	53,652	50,150	16,159	12,585	18,415	22,276	12,831	12,857	15,181	17,973	203,060	196,659
TOTAL.....	264,893	279,947	73,742	58,324	102,064	113,315	65,058	61,958	71,213	89,942	967,727	951,298
Total: Loaded and Unloaded.....	544,840		132,066		215,379		127,016		161,155		1,919,025	
Population (000).....	6,895		938		954		1,464		1,862		19,878	
Tons per Capita.....	.079		.137		.225		.086		.086		.096	

SOURCE: Railway Freight Traffic, D.B.S. Cat. No. 52-002  
Estimated Population By Province At June 1, 1966, D.B.S. Cat. No. 91-2

## APPENDIX A-72

SUBMISSION OF THE MARITIMES  
TRANSPORTATION COMMISSION  
TO THE STANDING COMMITTEE  
ON TRANSPORT AND  
COMMUNICATIONS RESPECTING  
ATLANTIC PROVINCES  
TRANSPORTATION PROBLEMS*Introduction*

1. The Maritimes Transportation Commission welcomes this opportunity of presenting its views to the Standing Committee on Transport and Communications. This Commission has appeared before your Committee on two previous occasions so that some of your members will be aware that the Commission is authorized and supported by the Governments of the Provinces of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador. The Commission is affiliated with the Maritime Provinces Board of Trade and the Newfoundland Board of Trade. It will be readily understood by the Committee that with the limited time available between the adoption of the Government motion on January 31 containing your terms of reference and the publication of your itinerary it is not possible in this submission to cover all areas of concern or any particular area adequately.

*Terms of Reference*

2. Some general comments respecting the terms of reference of the Committee's inquiry seems appropriate.

3. The terms of reference state, in part, "...and recommend what measure should be initiated in order that the national transportation policy may be as fully implemented as possible in the Atlantic Provinces." The national transportation policy is contained in Section 1 of the National Transportation Act. Stated simply, the national transportation policy calls for the operation of the transportation system along straight businesslike lines largely under the control of the free operation of inter-modal competitive forces.

4. Because of historic, geographic and economic factors pertaining to transportation as it relates to the Atlantic Provinces the full implementation of the national transportation policy without at the same time the provision of adequate national policy measures designed to overcome the region's transportation disadvantages would be entirely unacceptable.

5. The terms of reference require the Committee to make recommendations concerning "...alternative methods of assisting transportation in the Atlantic Provinces ..." (in addition to the Maritime Freight Rates Act or in substitution therefor in whole or in part). Since the Maritime Freight Rates Act was designed to assist the region's shippers or, in the words of the Royal Commission on Maritime Claims (the "Duncan Commission"), "Maritime merchants, traders and manufacturers", the methods of assisting transportation in the Atlantic Provinces as referred to in the terms of reference must be construed as meaning assistance to shippers, rather than assistance to carriers.

6. The final comment concerning the terms of reference pertains to the phrase "...with the purpose that maximum benefits be obtained by the Atlantic Provinces from the expenditure being made". (emphasis supplied) This Commission fully endorses the merits of this aim. At the same time, however, it is submitted that these words should not be construed as restricting the Committee in any way from recommending new or improved methods of transportation assistance to the region simply because the cost of the assistance exceeds the present expenditure. In this respect, it is submitted that the expenditure under the Maritime Freight Rates Act, for

example, bears no direct relationship to the assistance that may be required to *effectively* overcome the transportation disadvantages of the region. Furthermore, as will become apparent from the section of this submission dealing with the Maritime Freight Rates Act, the expenditure under that Act is only incidental to the intent or objective of the Act.

#### *Atlantic Provinces Transportation Study*

7. The terms of reference of your Committee require it, among other things, to take into account the conclusions and recommendations of the Atlantic Provinces Transportation Study, January 1967, Volumes 1 to 12, prepared by the Economist Intelligence Unit Limited of London, England and released to the public on May 30, 1967. As the Committee knows the Atlantic Provinces Transportation Study (Economist Intelligence Unit Report) consists of some 1174 pages and it is no easy task to state in brief form a position on the report as a whole. Generally speaking, it can be said that the report did not live up to the expectations of the region. This implies no criticism of the professional capabilities of the consultants. The diagnosis of the region's transportation situation is in many instances one of some depth, but the report is frequently lacking in positive solutions to overcome the region's transportation handicap. While it is true that it points to general solutions it fails to be specific enough to enable positive action to be taken in most instances.

8. For example, its conclusions respecting the effects of the National Transportation Act on this region would appear most valid, but it fails to spell out practical ways and means of off-setting these effects. Or its assessment of the Atlantic port problems is inadequate and certainly lacking in a positive approach to a solution. Or again, its suggestion of increased ferry fares to and from Newfoundland to encourage competition from private ferry operators is wholly unrealistic. At the same time its comments on federal government and railway policy respecting the provision of facilities for highway transports and the rates charged thereon on this ferry service are largely valid. On a positive note again, its diagnosis of the Maritime Freight Rates Act, while not fully acceptable, can form a basis upon which to build a positive transportation policy for the region. The report's suggestion

that transport costs have been over-emphasized by the region indicates, in this Commission's view, a failure to understand fully the effects that transportation in its broadest sense has on the industrial development of the region.

9. The foregoing is not intended to be an exhaustive or complete assessment of the report. Because of the mixture of "good" and "bad" in the report it is not easy to assess the full impact that the conclusions and recommendations of the E.I.U. Report could have on the Atlantic region. The effect would depend upon whether the federal government adopts practical policies to implement the "good" proposals and the extent to which the "bad" proposals are rejected by the federal government. In any event, it is obvious to this Commission that positive policies which may or may not have been fully covered in the report must be implemented to meet the region's needs.

10. As the Committee is no doubt aware the Minister of Transport has asked the Atlantic Premiers and the Maritimes Transportation Commission for proposals respecting national policy for transportation for the Atlantic region. The Governments of the Atlantic Provinces and the Maritimes Transportation Commission welcomes this approach by the Minister and the next section of this brief outlines the steps that have been taken to place before the federal government positive proposals respecting the transportation needs of this region of Canada.

#### *Atlantic Provinces Task Force on Transportation*

11. The Governments of the Atlantic Provinces in conjunction with the Maritimes Transportation Commission recently formed a task force or working group for the purpose of formulating a positive regional transportation policy. This undertaking is presently underway and will be completed in the shortest possible time. This approach to the region's transportation problems should in no respect be interpreted as being in conflict with the work of your Committee. Indeed, it is respectfully suggested that the Committee withhold its final report pending completion of the work of the task force so that the combined efforts of the two will be complementary thus providing maximum benefit for



the Atlantic Provinces. The Minister of Transport in asking the Atlantic Premiers for their views respecting a regional transportation policy, no doubt had in mind that such views would be complimentary to the work of your Committee.

12. As a result of the Minister's request and the formation of the task force the Maritimes Transportation Commission is not in a position at this time to place before you recommendations of a policy nature respecting regional transportation. At the same time, however, it was felt that your Committee would wish at least to have brought before it by this Commission a brief outline of several transportation matters of importance which require remedial action to overcome the transportation handicap of the region.

#### *Maritime Freight Rates Act*

13. The Maritime Freight Rates Act is, of course, the cornerstone of national policy respecting transportation for Atlantic Canada. The intent and objective of the Act and the obligation accepted by the Federal Government is as sacred to the Atlantic Provinces as are the Crows Nest Pass rates to Western Canada.

14. Because of its importance to the whole transportation situation in Atlantic Canada, and because both the spirit of the Act and its workings are frequently misunderstood by people both within and outside the region, it is felt desirable to review at some length the events leading up to the passage of the Act in 1927 and its operation since then.

15. Before doing so it might be appropriate to note that the MacPherson Commission strongly recommended that a clear distinction be made between national transportation policy and national policy. It cited the use of transportation to achieve national policy or public policy objectives as one reason for the problems of the railways. The Royal Commission recommended a clear distinction be drawn between these two policies in the future. The National Transportation Act, while beginning with a definition of national transportation policy, does contain a mixture of national transportation policy and national or public policy.

16. In the early days of Canada, transportation was certainly used as an economic development tool and as an instrument of public

policy. The building of the Intercolonial Railway and the rate level established thereon were designed to unite physically and economically the Canadas with the Maritimes. The Canadian Pacific Railway line and the agreement in respect of export grain rates were, likewise, designed to unite physically and economically the vast prairie lands and British Columbia to the rest of Canada.

17. From Appendix 1 attached to this brief it is graphically evident that the rates on the Intercolonial Railway were lower than elsewhere in Canada. While a more detailed analysis of the Intercolonial rate structure might be desirable, it is doubtful that it would further clarify significantly the main policy considerations in regard to the rates on the line. Rates were lower mile for mile than elsewhere as a result of direct Government policy.

18. This generally similar but lower level of rates on the Intercolonial continued into the first decade of this century subject to only minor changes and revisions. Around 1912, however, the first signs of upward revision in the rates on the Intercolonial as compared to those in Quebec-Ontario appeared. The trend became particularly noticeable as a result of the general rate increases authorized by the Board of Railway Commissioners between 1916 and 1922 when rates on the Canadian Government Railways, including the Intercolonial, though not subject to the jurisdiction of the Board, were, for all practical purposes, treated as though they were, their basis in historical fact and promise as interpreted prior to 1912 being either overlooked or deliberately ignored. While the reasons for this upward revision of rates on the Intercolonial are not easily defined, it appears that a combination of factors were at work: Rate increases on other railways, Government directives, and an attempt by the management of the Intercolonial to operate the line on a commercial basis. Whatever the reason, it was directly contrary to the policy which had been in force prior to 1912.

19. This "levelling-up" process was completed by 1923 when the Intercolonial became part of the Canadian National Railways System and thus subject to the jurisdiction of the Board of Railway Commissioners. At that time rates on the Intercolonial had reached the level of those in Ontario-Quebec and their intended lower basis had completely disappeared.

20. This state of affairs, coupled with depressed conditions in trade and agriculture, caused considerable agitation in the Maritimes. There was general dissatisfaction with the effects of the National Policy on the region, particularly with the failure to develop traffic through the ports of Halifax and Saint John and the loss of the region's favourable freight rates. Order-in-Council P.C. 505, dated April 7, 1926, was issued, instructing a special Commission to undertake a complete investigation into the entire matter. Known as the Royal Commission on Maritime Claims, the Commission made its report later that year.

21. Regarding the alleged reversal of national policy with respect to the construction and operation of the Intercolonial Railway, the Royal Commission on Maritime Claims (hereinafter referred to as the Duncan Commission) stated at page 21 in its report dated September 23, 1926:

*Rate structure of Intercolonial Railway*

The Intercolonial Railway was completed in 1876, and it would appear from the evidence we have received that from then until 1912 the interests of the Maritime Provinces were fairly well safeguarded, the freight rate structure being such as to take into account the requirements of their traffic. The lower level of rates that prevailed on the Intercolonial Railway system prior to 1912 is, in our view, rightly to be interpreted as the fulfillment by successive governments of the policy and pledges that surrounded the railway from its inception, whatever impressions may have been created by the form of its administration.

Since 1912, changes have taken place in the framework of the rate structure, and increases have been added to the freight rates. The combined effect of these has been to impose upon the merchandise and industry of the Maritimes, a burden which, it is alleged, is quite out of proportion to the increase which has been added since 1912 to the freight structure in other parts of Canada, although it may, in many cases, only have raised Intercolonial Railway rates to the same level of scale as rates in other places.

The net result of these changes is broadly shown by the figures given in

evidence by the Railway administration who, at our request, furnished us with statistics to show the position now as compared with 1912 for the Intercolonial Railway and for the rest of Canada. These figures reveal that Intercolonial rates have suffered an estimated cumulative increase of 92 per cent (i.e., their 100 has become 192). The estimated average increase of rates for the rest of Canada is 55 per cent (i.e., their 100 has become 155).

*Effect of Changes in Rate Structure on Maritimes.*

The Maritimes case on railway rates was put to us in very considerable detail. The railway Commission is at the present time dealing with these same details, and we have not formed any opinion on these matters so far as a judgment on their merits would involve consideration of railway administration and policy. On the broader question, however, of the incidence of the existing rates as a whole upon industry and employment in the Maritimes, we have come very definitely to the conclusion that the rate structure as it has been altered since 1912 has placed upon the trade and commerce of the Maritime Provinces, (a) a burden which, as we have read the pronouncements and obligations undertaken at Confederation, it was never intended it should bear, and (b) a burden which is, in fact, responsible in very considerable measure for depressing abnormally in the Maritimes today business and enterprise which had originated and developed before 1912 on the basis and faith of the rate structure as it then stood."

22. Another paragraph of the Duncan Commission report which should be quoted here is as follows:

"We think that this broad measuring, once and for all, of these considerations has such decided advantages that it should not be qualified or delayed by minor criticism. It separates completely considerations of national public policy from considerations of railway policy proper. It restores the original purposes of the Intercolonial Railway as interpreted by the freight structure prior to 1912, without withdrawing it from the consolidated system of National railways, a



step which we think would be retrograde, and, in the end, very unsatisfactory. The cost of the reduction is a matter that can be measured definitely and conclusively for each financial period without any complication or confusion to the financial operations of the consolidated system,—a feature that, in our view, is almost as important as the avoidance of complication in the practical operations of the system.” (Page 23)

23. In this paragraph we see the Duncan Commission suggesting a separation of “national public policy” from “railway policy” or now national transportation policy.

24. The Maritimes Transportation Commission believes that this paragraph of the Duncan report has often been subject to misinterpretations and consequent misunderstandings. The words “once and for all” have been interpreted by some as *the reduction* recommended by the Duncan Commission being the “once and for all” obligation to be accepted by the federal government. The Maritimes Transportation Commission does not subscribe to this position. It views the recommendation of a 20 per cent reduction which resulted from the broad measuring as only the amount of reduction required *at that particular point in time* to restore the relative position of Maritime rates vis-a-vis rates elsewhere in Canada. If the Duncan Commission had found that a different amount of reduction was required to restore the relative position of Maritime rates it would no doubt have so recommended. In examining the objective of the Act the percentage reduction is not the pertinent consideration. The pertinent consideration is “why” the Duncan Commission recommended any reduction in the first place.

25. From the paragraphs of its report quoted above it is obvious that the Duncan Commission was attempting to confirm and restore the obligation of the federal government to provide a lower level of rates on Atlantic Provinces traffic as compared to rates elsewhere in Canada—the obligation that was first expressed by the low rate structure of the Intercolonial Railway.

26. In the enactment of the Maritime Freight Rates Act in 1927 Parliament was attempting to restore the position of Maritime rates relative to rates elsewhere in Canada.

By the inclusion of Section 7 in the Act it is reasonable to assume that Parliament wished to ensure that “once and for all” the developments which took place between 1912 and 1926 did not reoccur. For ready reference Section 7 of the Maritime Freight Rates Act is quoted below.

“7. The purpose of this Act is to give certain statutory advantages in rates to persons and industries in the three Provinces of New Brunswick, Nova Scotia and Prince Edward Island, and in addition upon the lines in the Province of Quebec mentioned in section 2, together hereinafter called “select territory”, accordingly the Board shall not approve nor allow any tariffs that may destroy or prejudicially affect such advantages in favour of persons or industries located elsewhere than in such select territory. R.S., c 79, s. 8.

27. Developments since 1927 have had the effect of recreating the distortion which the Duncan Commission’s recommendation corrected for the earlier period and which Section 7 was intended to prevent in the subsequent period. The developments referred to are the lowering of rates to meet inter-modal competition or the non-application of the full authorized rate increases, or both, on traffic outside “select territory”, principally in Ontario and Quebec. Because of the greater distances involved, Atlantic Provinces traffic did not benefit to the same degree from competitive rate reductions and by the same measure it was unable to escape to the same extent the full application of the post war rate increases.

28. In its supplemental submission to the Standing Committee on Railways, Canals and Telegraph Lines during its examination of Bill C-120 of the Second Session of the Twenty-sixth Parliament, the Maritimes Transportation Commission submitted that in fact the relative advantage intended to be given to shippers from the “select territory” by Section 7 has in practice, and in the competitive environment which has developed since 1927, proven to be illusory in light of the judgments in *Province of Nova Scotia et al—Maritime Freight Rates Act—Tariffs* (1936) 44 *Canadian Railway Cases* 289 and on appeal to the Supreme Court of Canada (1937) 46 *Canadian Railway Cases* 161 (the so-called “Potato Case”). It is not intended to repeat in



full the submission made to the Parliamentary Committee at that time. It is sufficient to refer to one paragraph of that supplemental submission, namely:

"It is therefore quite unrealistic to say that the Atlantic provinces shipper has any effective means of invoking Section 7 to overcome the effect on him of competitive tariffs established outside the select territory by the railways to meet truck competition." (Standing Committee on Railways, Canals and Telegraph Lines, Minutes of Proceedings and Evidence, March 30, 1965, No. 19, p. 1068).

29. The relative advantage intended for persons and industries in the Maritimes has therefore not been maintained and the intent of Section 7 has been thwarted. Appendices 2 to 5 graphically illustrate this effect.

30. In short the mechanics of the Act have been unable in the competitive situation of today to maintain the intent of the Act. The failure of the mechanics of the Act to maintain its intent does not imply that the intent of the Act is no longer valid. On the contrary it is submitted that the primary objective of your Committee is to reiterate and reaffirm the objective of the Maritime Freight Rates Act, namely, to provide and maintain a statutory advantage in rates for shippers in "select territory" relative to shippers elsewhere in Canada. The Economist Intelligence Unit report stated it as follows at page v of Volume V:

"The objective of the Act was the fulfilment of the obligation, dating back to Confederation, 'to afford to Maritime merchants, traders and manufacturers the larger market of the whole Canadian people instead of the restricted market of the Maritimes themselves.'"<sup>1</sup> The means by which this objective was to be achieved was by the creation and maintenance of a statutory rate advantage to shippers in an area designated as 'select territory' on certain movements defined as 'preferred movements'..."

31. It is the submission of this Commission that Parliament intended by the Maritime Freight Rates Act that the Atlantic Provinces' overall effective rate level and specific rates would not again be subject to greater

increases than elsewhere in Canada. Through the so-called "Potato Case" it became apparent that the safeguards that Parliament intended in this respect were not fully effective. This does not imply that the Act is totally ineffective. To repeat, it simply does not in today's transportation climate achieve its intended objective.

32. Any revision to the Maritime Freight Rates Act must, at least, encompass the principle that the Atlantic Provinces will have a statutory rate advantage in relation to the rest of Canada. This statutory rate advantage is not merely the percentage reduction recommended by the Duncan Commission. A second principle which any revision must encompass is the payment of transportation assistance to all carriers or to shippers to remove the discriminatory features of the present Act where the assistance is paid only on rail traffic. This would encourage increased competition thereby contributing to bringing about a lower rate level.

33. Another comment pertinent to the Act is the Economist Intelligence Unit statement that the Act "was not a measure aimed at developing the Maritime economy" (Page ii, Volume V). The portions of the Duncan Commission quoted above certainly indicate that that Commission had economic consideration in mind. Again the Duncan Commission said at page 22 of its report that—"The situation is one that can only be dealt with in a broad spirit, and one *that for the economic welfare of the Maritimes must be met without delay.*" (Emphasis supplied) Regardless of whether Parliament intended the Act to be an economic development measure, it has in fact contributed to the economic development of the region. This Commission can only reiterate its submission to the MacPherson Commission when it said "...transportation has a significant role to play in raising the economy of the Atlantic Region to the level of the other regions of Canada." (Transcript of Evidence, The Royal Commission on Transportation, September 12, 1960, Volume 83, p. 14426).

34. In concluding this section of this submission, your Committee can be assured that the task force has already begun its work of developing as promptly as possible suitable revisions to the Act so that it might be truly effective in the years ahead.

<sup>1</sup> Preamble to the Maritime Freight Rates Act (17 George V, CH. 44)

### *National Transportation Act*

35. The views of the Maritimes Transportation Commission in respect of Bill C-231 which became the National Transportation Act were placed before the Standing Committee on Transport and Communications on November 10, 1966. At that time this Commission stressed that the basing of rail rates on cost and hence relating them directly to rail distance would be a direct reversal of previous government policy which had been aimed at reducing the effect of distance in Atlantic rates. The Economist Intelligence Unit fully agreed with this position.

36. Your Committee's terms of reference require it to recommend measures so "that the national transportation policy may be as fully implemented as possible in the Atlantic Provinces." Because of your direction in this regard, it may be helpful to your Committee to have quoted herein pertinent paragraphs from Volume 5 of the Economist Intelligence Unit's report which have a bearing on this particular point.

"Finally, when the national freight rates policy was declared in 1951, the Atlantic Provinces were exempted from the national policy. This was the equalisation of freight rates policy which was effected on class rates in 1955. As a result of equalisation, the position of the Atlantic Provinces vis-a-vis the rest of Canada with regard to class rates improved. By excluding the Atlantic Provinces from equalisation, the government effectively prevented the considerable rise in freight rates which would have resulted in the region.

Thus it can be argued that the Atlantic Provinces have never been included in national transport policy and have always been accorded special treatment and concessions aimed at reducing the effect of their isolation from the major Canadian markets. There can be little doubt that, in the past, this has been true and that railway rates to and from the Atlantic Provinces have not reflected the distance of the long haul involved.

Under the policy proposed in the National Transportation Bill it is quite possible that this situation will change. The Transport Policy embodied in the Bill lays stress upon the use of the forces of

competition as the means for effecting the optimum allocation of transport resources. Under increasing competition, the price of transport services should increasingly reflect the cost of providing those services. Under these conditions, the cost of the long haul to and from the Atlantic Provinces should be reflected in the rate structure; *this is a reversal of previous government policy which has been aimed at reducing the effect of distance in Atlantic rates.* If the rate structure gradually evolves so that it does reflect the cost of the long haul to central Canada the implications are clearly that the general level of rates in the Atlantic Provinces will rise, that the Maritime Freight Rates Act will become even more impotent in maintaining a rate advantage for the Maritime shipper, and that increased revenues under the present subsidy system will result in an increased subsidy to the railways." (Emphasis supplied) (Pages 132-3).

37. This section confirms the concern of the Maritimes Transportation Commission over the reversal of Government policy and the full implementation of national transportation policy in the Atlantic Provinces. The statement that the Maritime Freight Rates Act (implied as presently written) will become even more impotent in maintaining a rate advantage for the Maritime shipper emphasizes the need for revision in the Act to restore its original intent and objective. Because the situation is so obvious, little further elaboration would appear to be required here. It should be noted, however, that the Maritime Freight Rates Act does not apply on eastbound movements and the relating of rates to railway costs on such traffic can also adversely affect the region particularly for those companies who are dependent upon raw materials from sources outside the Atlantic Provinces.

### *Newfoundland Terms of Union*

38. Another statutory obligation undertaken by the federal government in respect of transportation in the Atlantic Provinces is the Terms of Union between Newfoundland and Canada.



39. Term 32 of the Terms of Union between Canada and Newfoundland reads as follows:

"(1) Canada will maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques, which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles.

(2) For the purpose of railway rate regulation the Island of Newfoundland will be included in the Maritime region of Canada, and through-traffic moving between North Sydney and Port aux Basques will be treated as all-rail traffic.

(3) All legislation of the Parliament of Canada providing for special rates on traffic moving within, into or out of, the Maritime region will, as far as appropriate, be made applicable to the Island of Newfoundland."

40. In the so-called "Newfoundland Rates Case", 67 C.R.T.C. 353, of 1951 these terms were dealt with at some length by the Board of Transport Commissioners. Preliminary to interpreting the precise meaning of these terms in relation to the then existing railway rate structure, the Board observed "...that the Terms of Union, although to be considered by us for purposes of interpretation as an Act of Parliament have the additional prestige of being the written expression of agreement between two sovereign Governments."

41. With respect to subsection (2) of Term 32 the Assistant Chief Commissioner of the Board stated "In my opinion they (words contained in subsection (2)) must then mean that *notwithstanding certain dissimilar, disadvantageous circumstances and conditions pertaining to Newfoundland*, this Province is to be included ratewise in the Maritime region on a general level of rates similar to the other Maritime Provinces. If this is so, and to that extent, as a Special Act, the Terms of Union take precedence over any provisions of the Railway Act to the contrary..." (Emphasis supplied)

42. The circumstances and conditions pertaining to Newfoundland are indeed dissimilar and disadvantageous as compared to the Maritime mainland. In fact, due to the existence of a narrow gauge railway, the imbalance in the flow of traffic and the nature of

the terrain the railway operating costs in Newfoundland are among the highest on the North American Continent. To illustrate the Newfoundland situation, Canadian National Railways had this to say:

"Of the 547 miles from St. John's to Port aux Basques...only 131 miles are level track.

The grades are steeper than those in the Rocky Mountains. More than 35 miles of track rise at from two to two and a half per cent grade, and three more miles are even steeper than two and a half per cent.

The sharpest curves on the Canadian mainland are six degrees. The Newfoundland Area can boast 35 miles of 10 to 12 degree curves, and nearly a mile of 15 degree curves. The sharpest curves can be found on the steepest grades.

As one veteran engineman... puts it, 'Sometimes you are going uphill and at the same time you are going downhill, and you can be going round three curves all at once.' ("Keeping Track", July—August 1963, Vol. No. 6, p. 17).

43. Furthermore, the equated tonnage rating for the largest Canadian National locomotive within Newfoundland ranges from a low of 750 tons to 1060 tons Eastbound from Port aux Basques to St. John's. On the other hand, a locomotive of approximate equal tractive capacity on the mainland has an equated tonnage rating ranging from 1370 tons to 4,000 tons eastbound from Joffre, P.Q. to Sydney, N.S.

44. Recent studies carried out by some of the world's major railways indicate that operating costs on rail lines with heavy grades and sharp curves can be eight times as high as the operating costs on lines with easy curves and grades. Canadian National confirms that heavy grades have a significant effect on their costs.

45. The MacPherson Royal Commission on Transportation found that the C.N.R. incurs an annual operating deficit in Newfoundland of approximately \$6 million per year which is included in the overall system operations.

46. From the standpoint of freight rates the C.N.R. has lived up to the Terms of Union and the Board's interpretation thereof by the publication of rates for traffic from, to and



within Newfoundland on a general level similar to the other Maritime Provinces *provided the rates are compensatory*. Because of the higher costs associated with moving traffic in Newfoundland the situation arises where such traffic is called upon to pay a higher level of rates than that which exists for moving the same traffic over the same distance on the Maritime mainland. This is clearly contrary to the Terms of Union.

47. Another area where Newfoundland traffic is subject to disproportionately higher rates as compared to similar traffic on the Maritime mainland is in the provision of so-called incentive loading rates, i.e. lower rates in return for increased weight per carload. Because Newfoundland narrow gauge railway equipment is significantly smaller than mainland equipment, incentive rate reductions for

Newfoundland traffic are limited to the capacity of the Newfoundland railway cars. In this respect, for box car traffic it is common to find incentive rates for Maritime mainland traffic subject to minimum weight of up to 100,000 or 120,000 lbs., whereas for the same traffic in Newfoundland incentive rates would be limited to a minimum weight of approximately 60,000 lbs. The result is, of course, that Newfoundland traffic pays a higher level of rates than similar traffic on the Maritime mainland. If, in this case, the situation is not actually in violation of the Terms of Union due to the physical limitations of the Newfoundland railway equipment, the result is certainly contrary to the spirit of those terms.

48. To illustrate the situations outlined in paragraphs 44 and 45 the Committee's attention is directed to the following rail rates:

#### CARLOAD RAIL RATES ON FISH MEAL

From	To	Rail Miles	Minimum wts. In thousands of lbs.			
			50	60	80	100
(Rates in cents per 100 lbs.)						
North Sydney, N.S.....	Truro, N.S.....	215	37	35	33	32
Stephenville Crossing, Nfld.....	Sydney, N.S.....	218	47	45	—	—
Halifax, N.S.....	Sussex, N.B.....	235	37	35	33	32

TARIFF AUTHORITY—CNRys. Tariff CM 73-4, CTC(F)E.4157

NOTE—The rates from Stephenville Crossing to Sydney, N.S. have not yet been published but were quoted by Canadian National Railways on February 7, 1968 subject to shippers acceptance and tariff publication.

49. It is clear from this example that, despite the Terms of Union, the railway is asking—because of its operating costs and the compensatory clause in the National Transportation Act—the Newfoundland traffic pay 10 cents per 100 lbs. or from 27 to 28 per cent more for equal minimum weights for approximately the same mileage as Maritime mainland traffic. A further disadvantage to the Newfoundland traffic which is apparent from this example is the lower rates for minimum weights of 80,000 and 100,000 lbs. on the Maritime mainland which are not available to the Newfoundland traffic.

50. These problems associated with the unique conditions pertaining to railway operations in Newfoundland were recognized in

the Economist Intelligence Unit report. In this respect the Committee's attention is directed to Volume V at pages 114 and 115 and particularly the passages quoted below:

"...under the Terms of Union and the Board of Transport Commissioners' decision in the Newfoundland Rates Case the railways must maintain the rates in Newfoundland at the same level as that in the Maritime Provinces. If this level is non-compensatory for Newfoundland there is a clear contradiction which must be resolved between the Terms of Union and the proposed minimum rate regulations in the National Transportation Bill.

If a compensatory rate level is to be introduced in Newfoundland it is clear

that an appreciable increase in rates should be expected. Newfoundland is one of the areas of Canada where there is still some degree of monopoly by the railways and a general increase in rates would probably be relatively easy to impose. But the island's economy is based on primary industry for which transport costs are much more significant than for secondary manufacturing industry. There is thus a real danger that any appreciable rise in freight rates in Newfoundland might have unfortunate effects on the Province's fledgling economy. In any case, to raise the level of rates in Newfoundland above that existing in the Maritimes would be contrary to the Terms of Union."

51. Section 326(6) of the Railway Act specifically mentions Term 32 of the Terms of Union of Newfoundland with Canada as taking precedence over any provisions of the Railway Act. However, this by itself is not sufficient to enable Newfoundland to receive the benefits intended by Term 32 as interpreted by the Board of Transport Commissioners. This is obvious from the rate example mentioned earlier.

52. It is obvious from the foregoing that without the establishment of the necessary machinery to give effect to Term 32 in the rate structure applying from, to and within Newfoundland the intended benefits of the Terms of Union will be further abrogated. This is another area where the task force can be expected to devote its attention in the formulation of a regional transportation policy.

#### *Non-Carload Rates*

53. The Committee is no doubt aware from the debates and questions in the House of Commons and from submissions it has already received that the Atlantic Provinces were faced with the most radical rate revision in years when on September 5, 1967 the railways introduced a new rate structure for non-carload shipments.

54. Submissions were made to Transport Minister Hellyer by the Atlantic Provinces' Premiers and the Maritimes Transportation Commission on this subject on December 13, 1967. It is expected that your Committee will receive representations on this subject from shippers and receivers and other public

bodies during the course of your Atlantic Provinces' hearing. It is not intended therefore to refer to this matter in detail, but simply direct your attention to Appendix 6 which is the brief submitted to the Honourable Paul T. Hellyer on December 13, 1967. The Commission takes the position in that brief that the new non-carload rates fall most heavily on the Atlantic Provinces. In summary it seeks four specific steps by the government and the railways, namely:

"1. that the reduction in intra-Maritime rates referred to in your announcement of November 9 be implemented at once;

2. that the railways be required to withhold their application to cancel the existing less than carload freight rates, at least until a new regional transportation policy is developed and implemented;

3. that the so-called density rule be reduced from one cubic foot equalling ten pounds to one cubic foot equalling five pounds; and

4. that immediate steps be taken to extend the Maritime Freight Rates Act subsidies to other forms of transport."

55. It is appropriate to draw your Committee's attention to the fact that, in the opinion of this Commission, it would not have been possible for the railways to introduce such a radical change in rates except under the freedom given them by the National Transportation Act. It is the further opinion of this Commission that the railways have paid little attention in their non-carload rates to competition from other modes of transport in the Atlantic Provinces.

56. It is submitted that were it not for the two-year "freeze" on carload non-competitive rates provided for by Section 335 of the National Transportation Act, your Committee would be receiving submissions from many, many more industries concerned over changes which are bound to occur in carload rates when this freeze expires on March 23, 1969. While the following quotation from Volume V, Page 128 of Economist Intelligence Unit report refers specifically to the system of arbitraries which have particular application to and from points outside the Atlantic Provinces, it does illustrate the probable effect of the freedom given the railways under the National Transportation Act.

"It would be possible for them to replace the system (of arbitraries) by a rate



structure based on mileage and thus abolish the present advantage of the system to the Atlantic Provinces, namely, that it does not reflect the long haul between them and central Canada. Such a course of action would have wide-spread implications in the Atlantic Provinces and, under the amended rate regulations, the railways would have considerably more freedom to carry out such a policy than under the previous regulatory system."

#### *Transportation and Economic Development*

57. As stated earlier the role transportation has to play in the economic development of Atlantic Canada is significant.

58. In your Committee's examination of the transportation problems of the area, it may be helpful to have a brief summary of some of the transportation problems facing Atlantic industry which may not be evident without great familiarity with the region.

59. An Atlantic Provinces' manufacturer may have no particular transportation advantage in the so-called "local" market. For example, a Maritime mainland manufacturer may find it difficult, if not impossible, to be competitive both transportation-wise and time-wise in the Newfoundland market. His competitors are able to utilize fast steamship service from Montreal to Newfoundland during the season of open navigation and to a lesser extent year-round to St. John's at rates which are often as low as or lower than from the Maritime mainland. The Montreal manufacturer also has available year-round pool car service at rates which make it difficult for Maritime mainland companies to be competitive. No similar pool service is available to most Maritime shippers because of insufficient volume. This does not suggest that Newfoundland is not entitled to the low rates and fast service but it does stress the fact that the Atlantic Provinces population is not necessarily a "captive" market for Atlantic industry.

60. It might be expected that Atlantic Provinces' manufacturers strategically located at seaboard would have advantages in the export market. Unfortunately this is not so insofar as regular liner trade is concerned—the type of steamship service via which manufactured products generally move. Ocean rates to and from the Atlantic ports

are generally the same as ocean rates to and from St. Lawrence ports. In other words, ocean rates do not reflect our geographic advantage in export markets. Furthermore, during that period of the year that the St. Lawrence River is open to navigation the Atlantic Ports do not have sufficient frequency of service to permit the development of export trade without routing much of that traffic via St. Lawrence at extra transport costs.

61. Even in those instances where the local manufacturer may have a transportation advantage in at least part of the local market, that market may not be sufficiently large to allow for an economical operation. It is a generally well accepted principle that industry must have a local or natural market area of sufficient size to cover fixed costs. The Atlantic Provinces do not provide in many cases a market area of this size.

62. The Economist Intelligence Unit report suggests that transport costs have been over-emphasized by the Atlantic Provinces. It indicates that transport costs are a small part of the total costs—"commonly around 5 per cent of total costs." (page 91, Volume V). Whatever the extra transport costs incurred by an Atlantic Provinces' industry are over those incurred by its Central Canadian competitor, this means that it has that much less money for expansion and modernization, that much less money for advertising and research, that much less money for salaries and wages and that much less money to attract new investment.

63. Expressed another way, it means that if the ratio of net earnings to sales is 4.7 per cent (the national average for members of the Canadian Manufacturers Association in 1966) then a company with \$10 million in sales incurring extra transportation costs of \$100,000 would have to increase its sales to \$12,128,000 or over 21 per cent to earn the \$100,000 of "profit" which it lost because of extra transportation costs—transportation costs which its competitor escaped.

64. The Maritimes Transportation Commission is frequently called upon to assist the industrial development agencies of the Atlantic Provinces in their efforts to secure new industries for the region. As a result it is convinced that if the efforts of all levels of Government to attract and retain industry in the area particularly non-resource based



industry, are to be successful, improvements in transportation facilities and costs are required. Because of the confidential nature of the work done by the Maritimes Transportation Commission in the industrial development field, it is not possible in this submission to reveal the complete details of some of its studies. The following examples may be helpful.

65. A company was seriously considering locating in one of the Atlantic Provinces as it had to expand its facilities. It was considering locating either in or near the industrial belt stretching along the St. Lawrence or in the Atlantic Provinces. The Maritimes Transportation Commission was asked by the Industrial Development Agency concerned to assess the transportation advantage or disadvantage of an Atlantic Provinces' location, in cooperation with the company involved. Using three of its major markets only and six of its raw material sources only, it was determined that for it to locate in the Atlantic Provinces it would incur transport costs on inbound materials amounting to at least 82 per cent more than at the alternative location outside the region and it would face more than a 27 per cent transport cost handicap on outbound shipments. Since this study was done the railways' new non-carload rates and increasing truck rates would further worsen the relative position of the Atlantic Provinces location. Another company with which this Commission has been associated in negotiations with the carriers regarding transportation costs estimated that a 3 cent per lb. disadvantage in transportation charges (which was the amount involved in the negotiations) would be roughly equal to 20 per cent of its anticipated labour costs.

66. Neither of the above examples take into consideration costs associated with other facets of distribution, such as, warehousing, inventory costs, delays in transit and the very real fact of costs in time and dollars for travel by company personnel.

#### General

67. It is not possible within the time available and could prove somewhat repetitious if this submission were to deal with all the problems in transportation facing the region. Other submissions will cover many of these in some detail.

68. *Ports*: The failure of the Atlantic ports to hold or improve their relative position with other ports is of concern to the Atlantic Provinces. A study done for the Atlantic Development Board in 1964 revealed that increasing navigation on the St. Lawrence River during the winter months would inflict upon the Atlantic ports and the Atlantic economy increasing losses of traffic and lost income. Traffic patterns via the Atlantic ports since then have confirmed the accuracy of that forecast. The adoption of new technology such as unit or integral trains, container or "Lash" ships or both, coupled with the "Land Bridge" concept, may promise some future for these ports. If so such developments must proceed with haste in order not to lose the race for this traffic to United States interests and ports.

69. *Railway Line*: Some improvement in the grades and curves and possibly some shortening of the railway line would reduce the cost of transportation thereby reducing the need for subsidies. Or likewise the unit or integral train concept may help overcome the geographical handicap in reaching Canadian markets as the operation of such train can materially reduce unit costs.

70. *Highways*: Continued improvement in highways is required. But let it be clearly stated that the degree of industrial development, the concentration or lack of concentration of population, the nature of the region's industrial development, the distance over which transport services are required, the level of fuel taxes, the delays caused by ferries and the circuitry of the highway stemming from the indentations of the sea all reduce the effectiveness of highway competition.

71. *Ferries*: Little needs to be said about the need for adequate ferry services connecting the two island Provinces of Canada to the mainland. Until a permanent and suitable crossing connects Prince Edward Island to the mainland it will continue to require ferry service to meet the increasing flow of people and goods to and from that Province. Not only must the service be adequate but fares must be kept at levels which do not unduly penalize the citizens of those Provinces. The Committee is well aware of the need for improved service on the Digby-Saint John route. The fare structure, capacity and frequency of sailings on the Yarmouth-Bar Harbour route is alleged to be the cause of Western Nova Scotia receiving no benefit in truck rates

from this shorter route to and from New England. The need for additional ferries on the North Sydney-Port aux Basques route was clearly set out in the Economist Intelligence Unit report.

72. *Air Services*: Having travelled throughout the region your Committee will be aware of the need for efficient, regular and convenient air services for the movement of people and goods. Labrador is particularly dependent upon air services for the movement of goods and people. The role of the regional air carrier and the implementation of the long awaited regional air policy is, indeed, of importance to this part of Canada, and Newfoundland and Labrador in particular.

73. These areas are ones to which it can be expected that the regional task force will devote some attention in its formulation of a proposed regional transport policy.

#### *Conclusion*

74. The Maritimes Transportation Commission hopes that the outline of the background of some of the region's transportation problems, which of necessity had to be brief, will be beneficial to your Committee in its deliberations.

75. In view of the task force approach being taken by the region to assist in the formulation of national policies on transportation for the Atlantic Provinces, it is obvious that this work cannot be completed during this session of Parliament. It is essential, therefore, that the work started by your Committee be carried on by the reconstituted Standing Committee on Transport and Communications during the next session of Parliament.

76. While it is realized by this Commission that the formulation of national policies for any region of Canada falls within the sole jurisdiction of the Parliament of Canada, it was felt that the Federal Government would wish to have the benefit of the views of the governments of the region in the development of such policies. It was with this understanding that the task force approach by the Provinces was conceived.

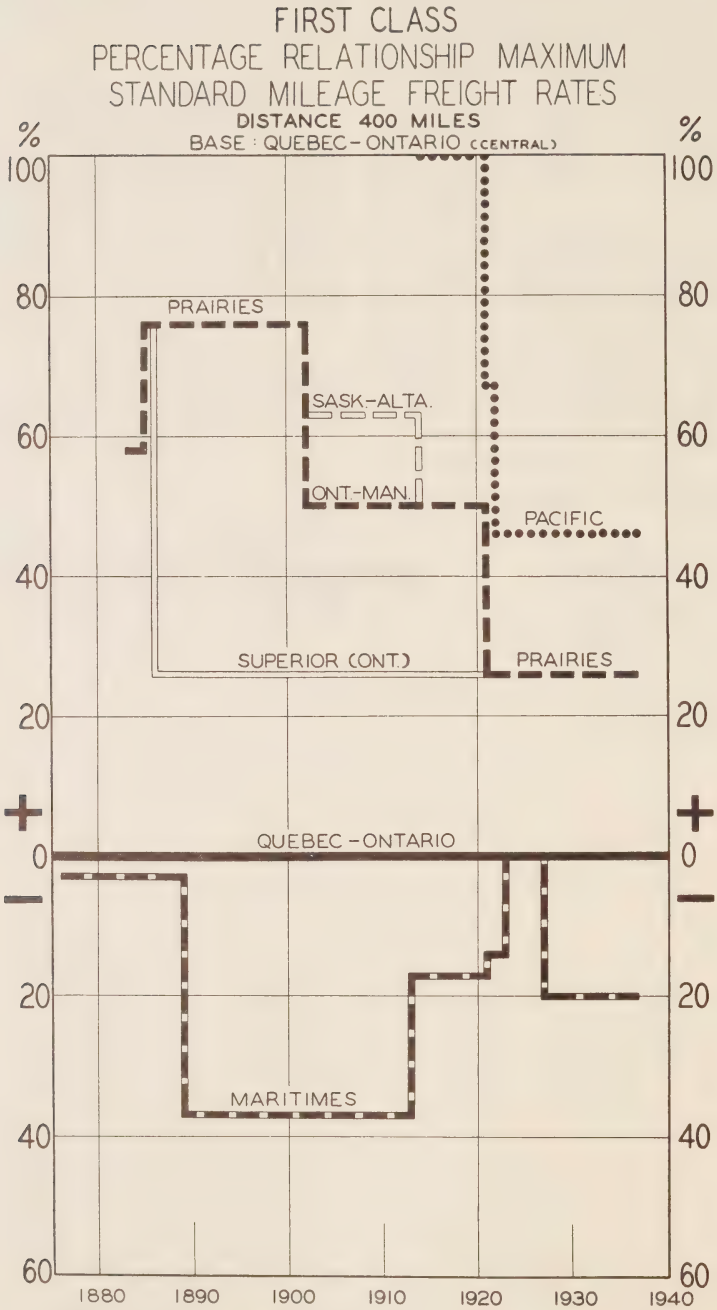
77. All of which is respectfully submitted.

The Maritimes Transportation Commission

J. M. Crosby  
Chairman

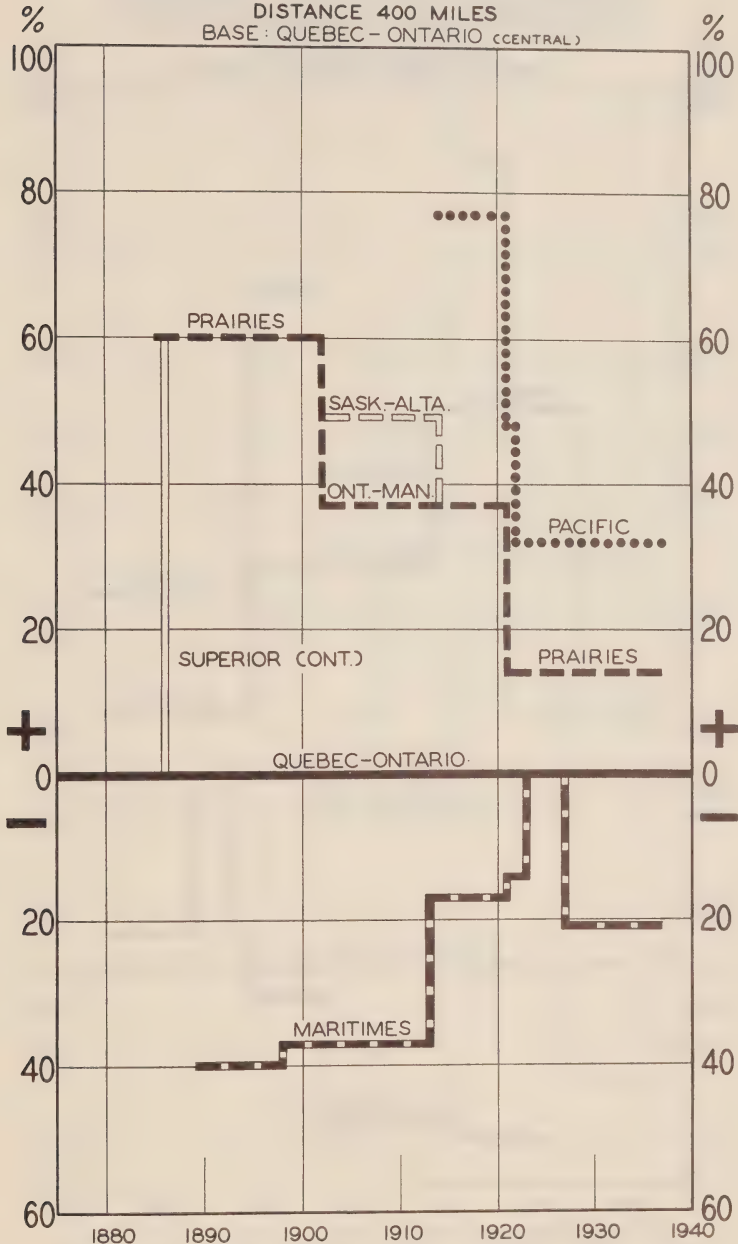
APPENDICES



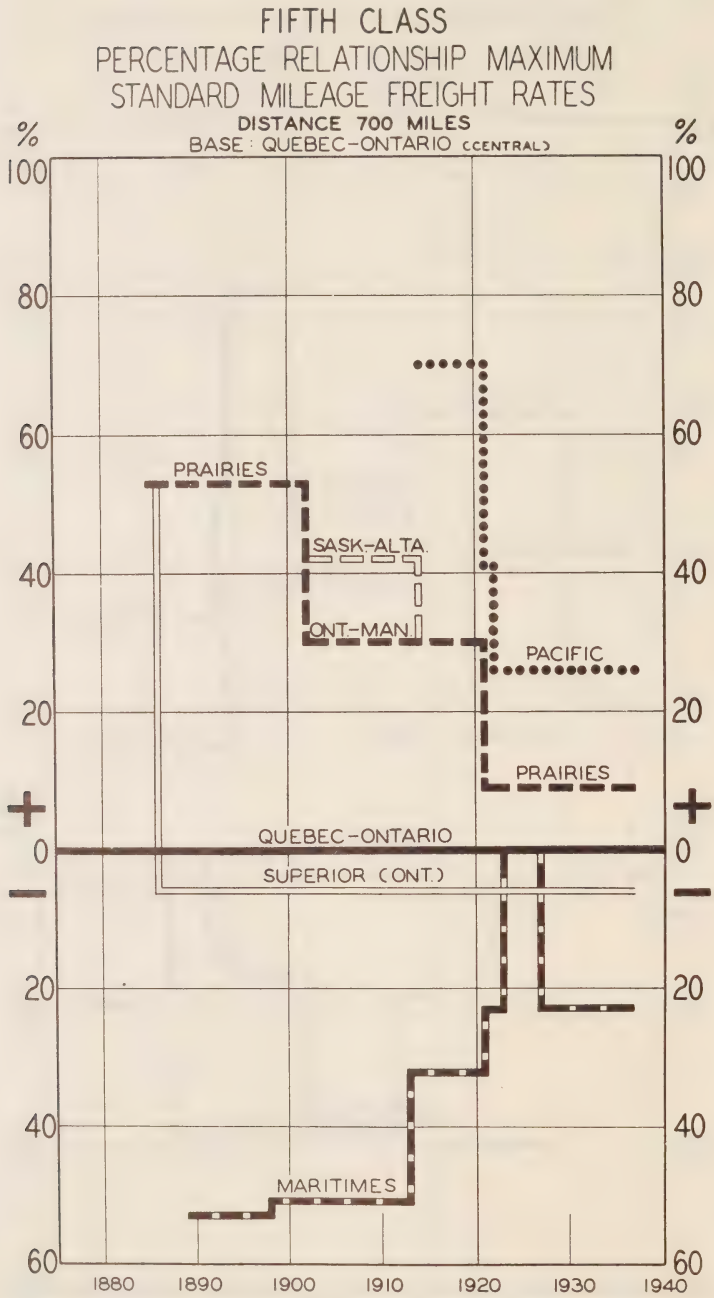


APPENDIX I  
PAGE 2

FIFTH CLASS  
PERCENTAGE RELATIONSHIP MAXIMUM  
STANDARD MILEAGE FREIGHT RATES

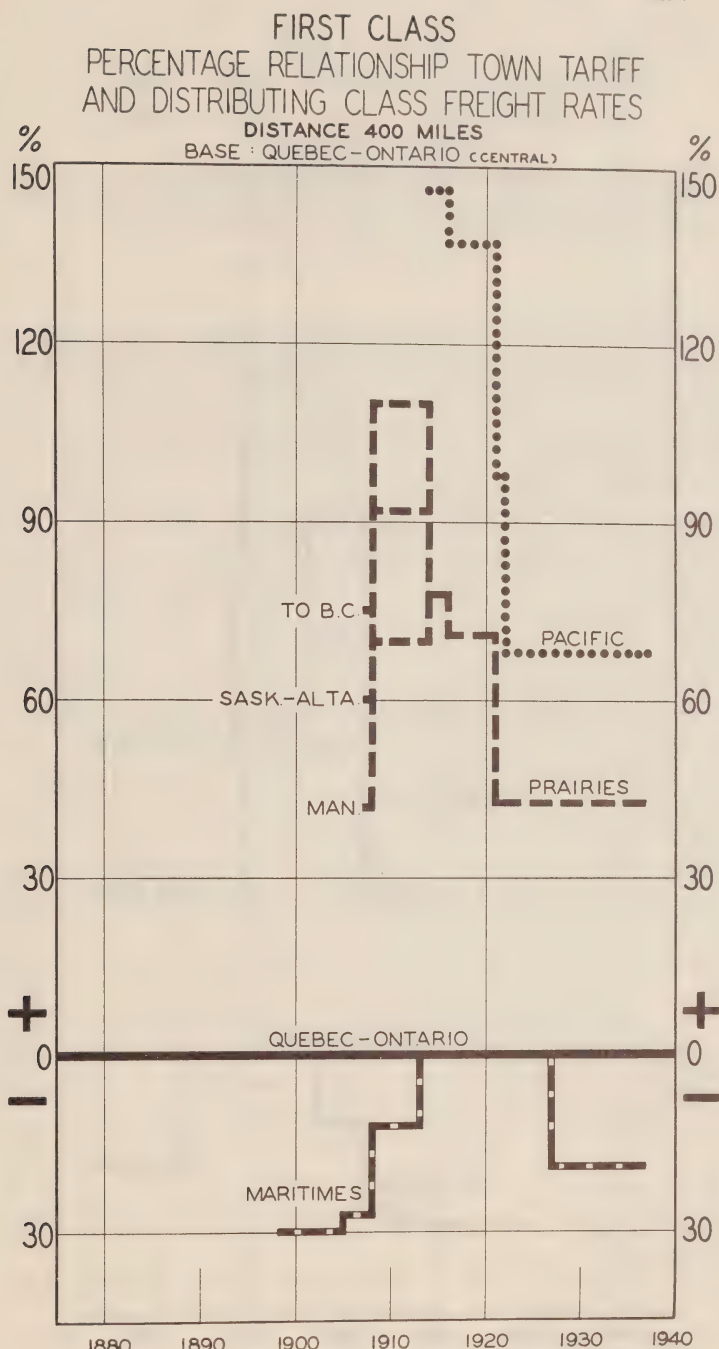


SOURCE: R.A.C. HENRY AND ASSOCIATES:  
"RAILWAY FREIGHT RATES IN CANADA" (1939) PAGE 270

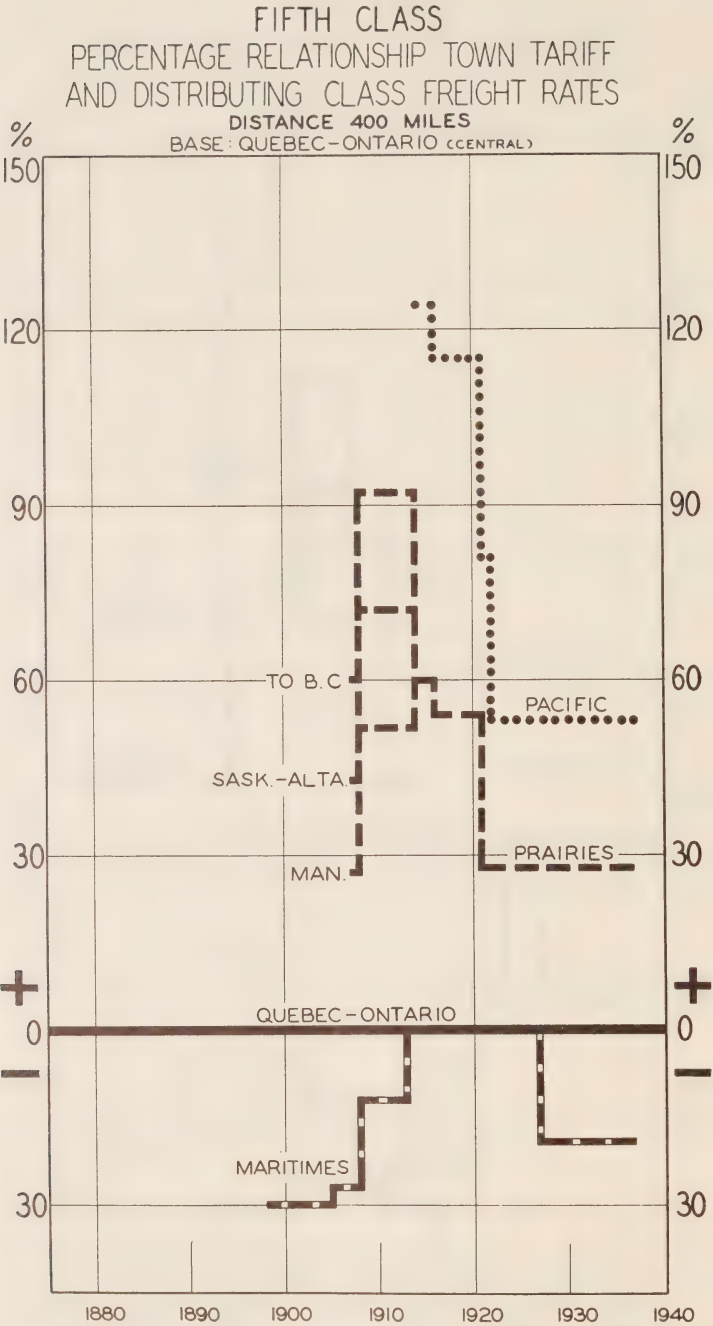


SOURCE: R.A.C. HENRY AND ASSOCIATES:  
"RAILWAY FREIGHT RATES IN CANADA" (1939) PAGE 271





SOURCE: R.A.C. HENRY AND ASSOCIATES:  
"RAILWAY FREIGHT RATES IN CANADA" (1939) PAGE 276

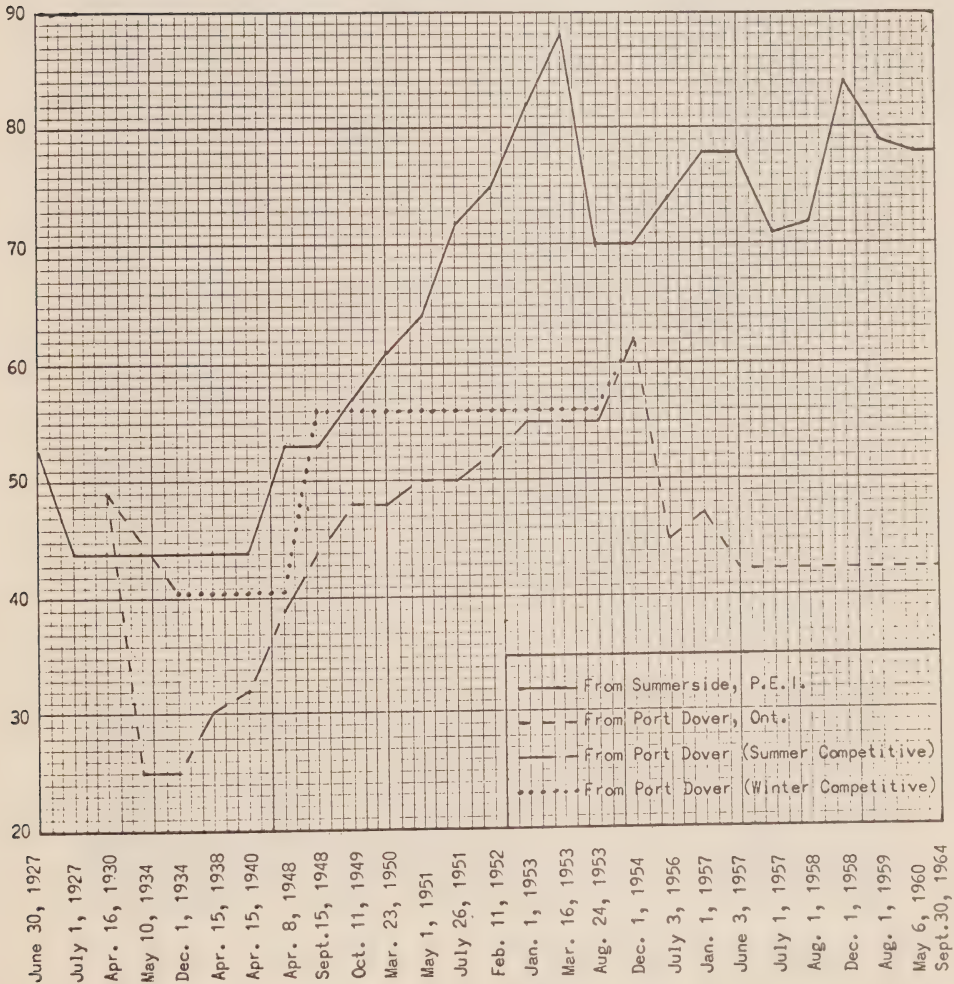


SOURCE: R.A.C. HENRY AND ASSOCIATES:  
"RAILWAY FREIGHT RATES IN CANADA" (1939) PAGE 278

APPENDIX 2

COMPARISON OF THE CARLOAD RAIL RATES ON CANNED MEAT PRODUCTS  
FROM SUMMERSIDE, P.E.I. TO MONTREAL, P.Q. WITH CORRESPONDING  
RATES FROM PORT DOVER, ONT. TO MONTREAL, P.Q.

Rates In Cents Per 100 Lbs.

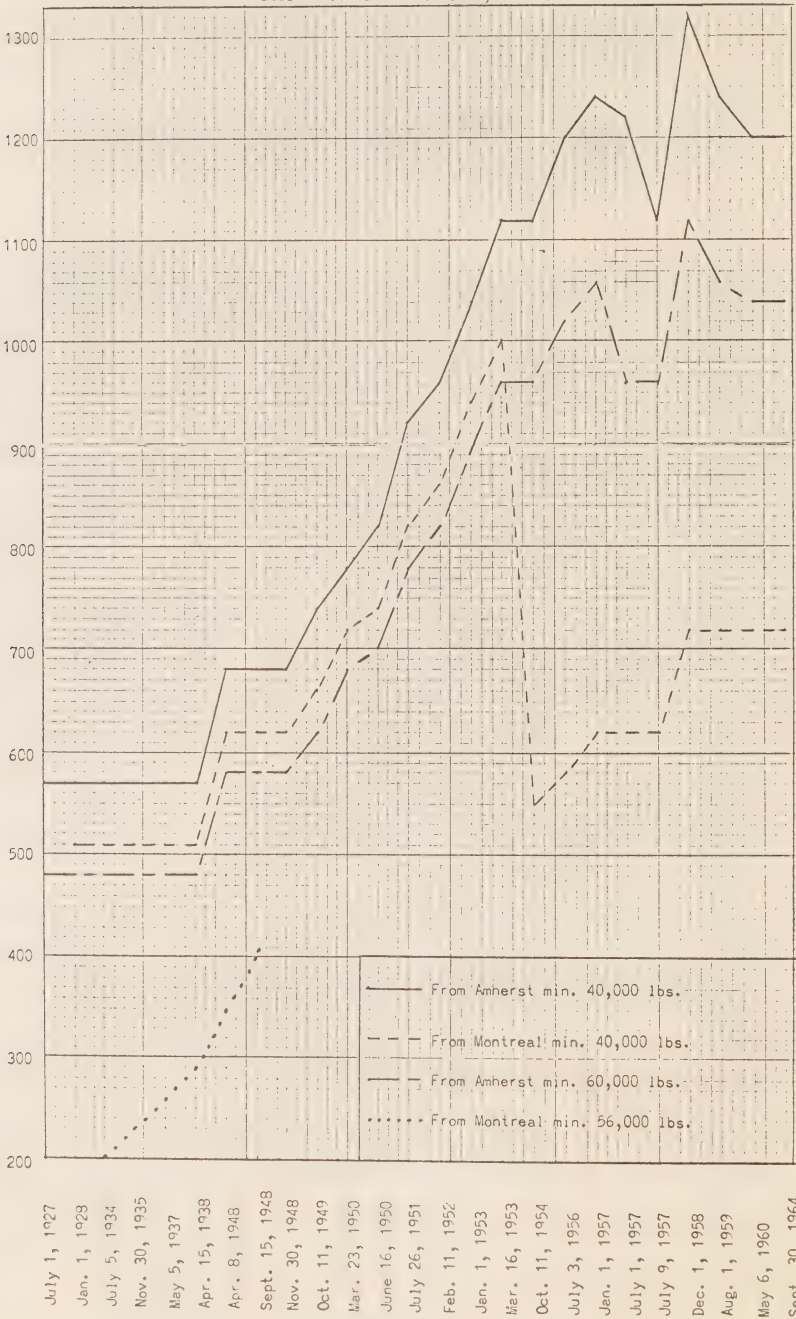




APPENDIX 3

COMPARISON OF THE CARLOAD RAIL RATES ON STEEL BARS FROM AMHERST, N.S. TO  
QUEBEC, P.Q. WITH THE CORRESPONDING RATES FROM MONTREAL, P.Q. TO QUEBEC, P.Q.

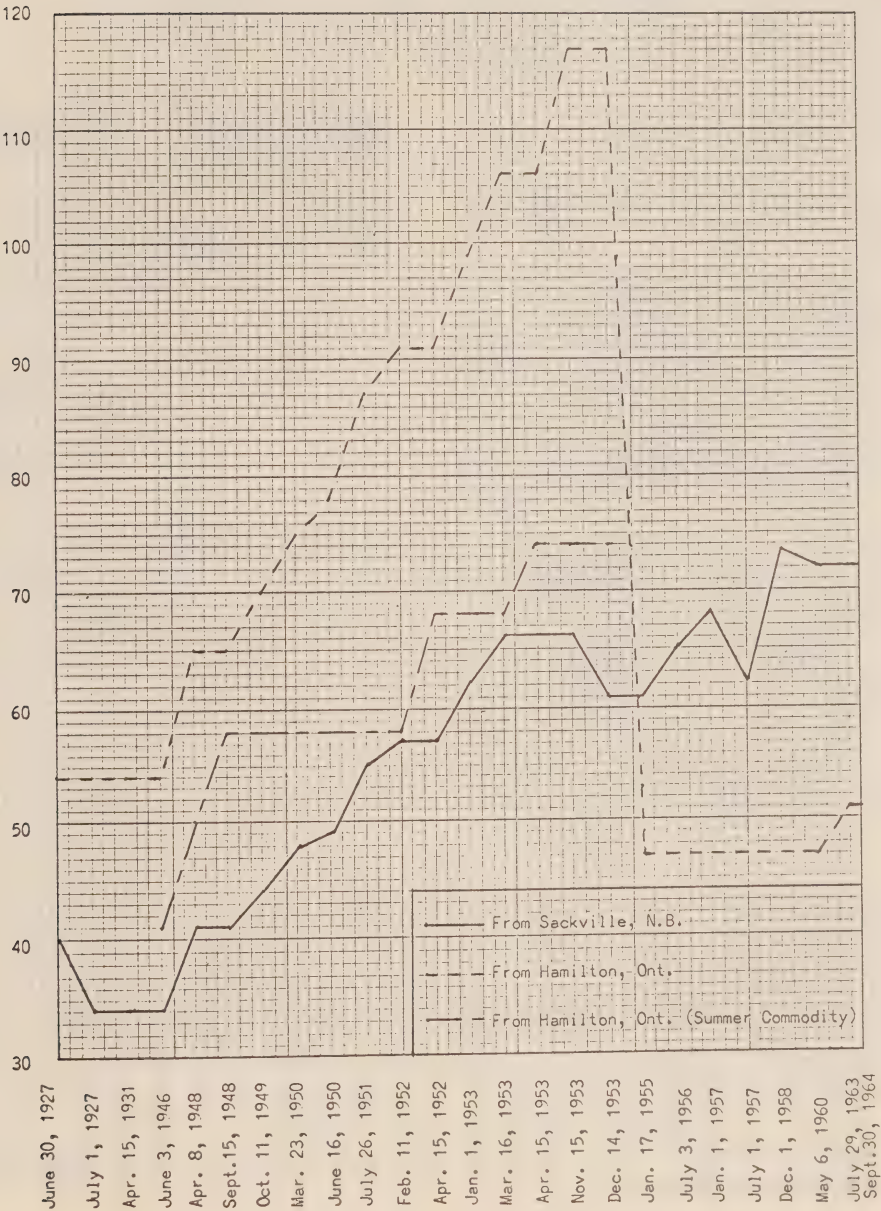
Rates In Cents Per Ton Of 2,000 Lbs.



APPENDIX 4

COMPARISON OF THE CARLOAD RATES ON STOVES AND RANGES FROM  
SACKVILLE, N.B. TO MONTREAL, P.Q. WITH CORRESPONDING RATES  
FROM HAMILTON, ONT. TO MONTREAL, P.Q.

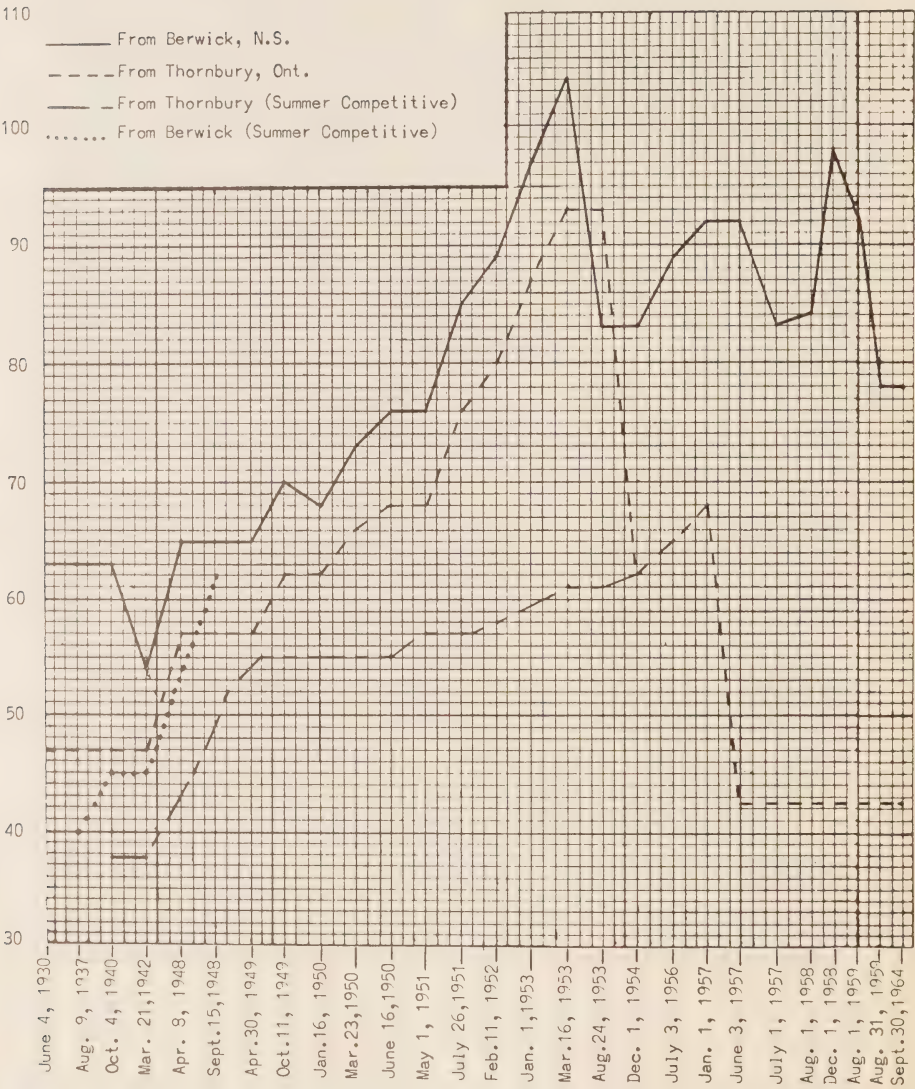
Rates In Cents Per 100 Lbs.



APPENDIX 5

COMPARISON OF THE CARLOAD RAIL RATES ON CANNED APPLE PRODUCTS FROM BERWICK, N.S. TO OTTAWA, ONT. WITH THE CORRESPONDING RATES FROM THORNBURY, ONT. TO OTTAWA, ONT.

Rates In Cents Per 100 Lbs.





APPENDIX 6  
IN THE MATTER OF  
RAILWAY NON-CARLOAD  
FREIGHT RATES  
SUBMISSION BY  
THE MARITIMES TRANSPORTATION  
COMMISSION  
ON BEHALF OF  
THE GOVERNMENTS OF THE  
PROVINCES OF  
NOVA SCOTIA, NEW BRUNSWICK  
PRINCE EDWARD ISLAND AND  
NEWFOUNDLAND  
TO THE MINISTER OF TRANSPORT  
THE HONOURABLE  
PAUL T. HELLYER, P.C., M.P.

Ottawa, Ont.

December 13, 1967

The Honourable Paul T. Hellyer,  
P.C., M.P.

Minister of Transport  
Ottawa, Canada

Sir:

On September 5, 1967 the Canadian railways introduced a new rate structure for non-carload shipments. On that date most existing express rates were cancelled. Less than carload rail rates issued to meet motor carrier or water competition were also cancelled. Railway cartage service was discontinued on that date except for shipments carried at the new non-carload rates. The reaction of Atlantic Provinces shippers and receivers was one of immediate and real concern. Events since then have not removed nor lessened this concern.

*Reasons for Concern:*

1. The Atlantic Provinces originate and terminate annually more pounds of less than carload freight per capita than other parts of Canada. In 1966, the latest year for which D.B.S. rail statistics are available, 364 pounds of less than carload freight per person was loaded and unloaded in the Atlantic Provinces. In contrast, 192 pounds per person was loaded and unloaded in all of Canada. Expressed in percentages, the per capita use of rail less than carload freight service in the Atlantic Provinces is 89.5 per cent greater

than the per capita use of less than carload freight service in all of Canada. Appendix 1 to this submission gives more details of these tonnages by Province.

2. Because Atlantic Provinces' shippers and receivers are scattered over a wide area with few large centers of population and no large concentration of industrial activity, there is a lack of opportunity for Atlantic business and industry serving the regional market to ship in full carload to that market. By the same token, there is a lack of opportunity in the Atlantic Provinces to develop the so-called "pool-car" or "freight forwarding" concept of distribution within the region. If the paint manufacturer in St. John's, Nfld. is to reach the entire Atlantic Provinces market, he must move his goods in non-carload service approximately 1,200 miles to Edmundston, N.B. and Yarmouth, N.S. Neither community is large enough to receive a full carload at one time. Or, the mattress manufacturer in Moncton, N. B. or the stove manufacturers in Sackville, N.B. have as many miles to cover to reach St. John's, Nfld. as they do to reach Toronto, Ont. Here again, the market at St. John's, Nfld. is not large enough to enable these manufacturers to ship in full carloads, thereby requiring them to utilize non-carload service.

3. Many local manufacturers and distributors serving the regional market are in direct competition with manufacturers outside the Atlantic Provinces in the major market centers of the region. Many of the manufacturers outside the region can, and do, ship full carloads or utilize the "pool-car" concept to reach these major Atlantic Provinces market centers. The new non-carload rates will worsen, and in some cases destroy completely, the advantage a local manufacturer may have in the regional market. Appendix 2 to this submission shows random illustrations of this effect.

4. Complete statistics are not available to the Maritimes Transportation Commission to determine the full increase or decrease in transport costs to the various regions of Canada. Based on the data contained in Appendix 3, it is apparent that the Atlantic Provinces non-carload rates have increased in a greater proportion than non-carload rates in other parts of Canada.

5. Because of greater distances from sources of raw materials and component parts

Atlantic Provinces manufacturers must incur additional freight costs on such materials going into the manufacturing process over the freight costs incurred by their competitors for the same articles. While pool cars are used wherever possible, these added costs affect the ability of local manufacturers to compete in the whole market of Canada.

6. The introduction of the so-called "density rule" has had the effect of materially increasing transport costs for many Atlantic Provinces' shippers and receivers. Manufacturers of Electric Ranges, Clothing, Footwear, Luggage, Aluminum Articles, Plastic Articles, Potato Chips, Furniture, Boats and Canoes, Empty Fuel Oil Tanks, and certain Paper Products have a density of less than 10 lbs. to the cubic foot. Industries manufacturing the above mentioned articles make up a large part of the region's secondary manufacturing, and are particularly important to those communities where this type of industry is located. While it is recognized that similar industries are located elsewhere in Canada, the importance of industries such as these to the economic growth of the region is of far greater significance than to the more industrialized regions of Canada. If the density rule should cause one or more of this type of manufacturer to close their Atlantic Provinces' operations or to cancel the possible expansion of operations, or even to curtail their employment, the concern over this "density rule" is indeed justified. Appendix 4 contains a number of statements by prominent manufacturers outlining their concern over the future operations of their companies in view of new non-carload rate structure.

7. The full effects of the new rates has not yet been felt by all Atlantic Provinces companies because some have been able to perform, or have performed on their behalf, cartage services at origin and destination. In such circumstances the so-called less than carload freight rates continue to apply. The manufacturers of Boats and Canoes, Potato Chips, Furniture, and Electric Ranges, in particular, have been able to largely avoid the new rates by performing their own cartage service. Their concern is that the railways will cancel these less than car load freight rates leaving them with no alternative but to pay the new non-carload rates. Appendix 5 shows random examples of the effects of the non-carload rates in relation to the class rates.

### *November 9 Announcement*

The Maritimes Transportation Commission welcomed your announcement on November 9 that some relief in the non-carload rates may be forthcoming. It must, however, point out that the reduction proposed in your announcement is highly illusory for many Atlantic Provinces' shippers. This is so because if your announcement is correctly understood by the Atlantic Provinces it was simply that the railways had agreed to this reduction on the condition that they be permitted by the Canadian Transport Commission to withdraw the existing less than carload freight rates.

### *Reasons Proposal is Unacceptable*

It is submitted that the proposal made by the railways and embodied in your announcement of November 9 is unacceptable to the Atlantic Provinces for the following reasons:

1. The rate reduction on intra-Maritime shipments should in no way be conditional upon the Canadian Transport Commission granting the Railway authority to cancel their existing less than carload freight rates. As is evident from Appendix 3, the Atlantic Provinces have been asked to share a greater proportion of the increase in rates than other parts of Canada. It is submitted, that the Atlantic Provinces must not be asked to bear and are least able to afford a greater increase than other parts of Canada. The reduction embodied in your November 9 announcement should, therefore, be made applicable immediately.

2. To couple the reduction in the Atlantic Provinces' rates to a favourable decision by the Canadian Transport Commission on the railways, application puts the Canadian Transport Commission in an untenable position in hearing that application. The Atlantic Provinces respectfully ask that the Canadian Transport Commission be released from its present untenable position and that the proposed lower rates for intra-Maritime traffic be implemented immediately and in no way be conditional upon the Canadian Transport Commission's decision on any application the railways may place before it.

3. As has been indicated, there are shippers and receivers in the Atlantic Provinces who have been able to avoid the full impact of the



railways' non-carload rates. For these shippers, it is imperative that the existing less than carload freight rates be maintained. The Atlantic Provinces strongly urge you to request the railways to withhold any action that might result in the cancellation of the existing less than carload freight rates at this time. These rates must be maintained, at least until a new and modern regional transportation policy for Atlantic Canada is developed and implemented.

4. The effects of the so-called "density rule" have been outlined above. It is submitted that this rule is most unrealistic. It is based on one cubic foot equalling ten pounds. With much smaller cargo carrying capacity, the airlines have a density rule of one cubic foot equalling 6.9 pounds. It is further submitted that the present rule guarantees to the railways a chargeable weight of 39,000 lbs. (for 3,900 cubic foot box car) when the box car is loaded with non-carload freight. Many commodities when moved in carload lots are subject to a minimum weight of considerably less than 39,000 lbs. The railways should not be guaranteed higher chargeable weights for non-carload shipments than for carload shipments. Extra costs involved in handling non-carload traffic in relation to carload traffic is already reflected in the higher rate level for non-carload traffic in relation to the rates applying on carload traffic.

5. Since the new non-carload rates have been effected, considerable traffic has been diverted from rail service to highway carriers. The railways have, therefore, lost revenue and rail employment generating opportunities. To the extent that the diversion from rail to highway has been a diversion to the least cost carrier, then such diversion would be in harmony with the National Transportation Policy expressed in the National Transportation Act. It is, however, difficult to reconcile this harmony when it is realized that the railways have established lower non-carload rates in Western Canada than Atlantic Canada. Such action certainly raises the question of whether railway costs are lower in Western Canada than in Atlantic Canada; or whether the railways have elected to meet truck competition in Western Canada and not in Atlantic Canada.

#### *Application of Subsidy to Other Forms of Transport*

Highway transports in the Atlantic Provinces have increased their rates slightly since September 5. Further increases to meet increasing operating costs can be expected. Already the Atlantic highway transport industry face high operating costs. These stem from a number of factors such as the scattered population of the region, the lack of industrial concentration, the spring weight restrictions, high fuel taxes and registration fees, impediments of geography, and delays.

Highway transport also have to compete with rail carriers without the benefit of federal subsidies under the Maritime Freight Rates Act. The extension of the subsidy to other forms of transport is certainly in accord with the National Transportation Policy. Almost without exception, everyone in the Atlantic Provinces favour the extension of the subsidy to other forms of transport. The only objection from a federal level heard by the Atlantic Provinces against such an extension is that it would create an administration problem. The Atlantic Provinces are unable to accept this as a valid reason for not extending the subsidy to such carriers.

Millions of dollars are paid under agriculture subsidy programs to a multiplicity of recipients and at reasonably small administrative costs. It is submitted that the small investment in administration which would be required to extend the subsidy to other forms of transport would be more than matched by an improved competitive climate.

Without attempting to outline in detail a method by which the subsidy could be paid to such carriers, the Atlantic Provinces believe that the administrative problems would be minimized if the subsidy were paid only to carriers registered with the subvention authority and, in the case of highway carriers, properly franchised by the appropriate motor carrier authority or authorities. This practice is similar to that followed by the Canadian Livestock Feed Board. With the advent of computers it would seem relatively simple to administer such a subsidy program.

#### *Summary*

In summary, the Maritimes Transportation Commission on behalf of the Governments of the Atlantic Provinces asks—



1. that the reduction in intra-Maritime rates referred to in your announcement of November 9 be implemented at once:

2. that the railways be required to withhold their application to cancel the existing less than carload freight rates, at least until a new regional transportation policy is developed and implemented;

3. that the so-called density rule be reduced from one cubic foot equalling ten pounds to one cubic foot equalling five pounds; and

4. that immediate steps be taken to extend the Maritime Freight Rates Act subsidies to other forms of transport.

Dated at Ottawa, Ont. on the 13th day of December, 1967.

Respectfully submitted,

J. M. Crosby  
Chairman

Craig S. Dickson  
Executive Manager

APPENDIX 1

1966 USAGE OF L.C.L. SERVICE PER PROVINCIAL POPULATION

	Newfoundland		P.E.I.		Nova Scotia		New Brunswick		Atl. Provinces		Quebec	
	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded	Loaded	Unloaded
1st Quarter.....	9,872	13,385	503	1,485	15,718	18,557	23,472	22,942	49,565	56,369	42,516	40,598
2nd Quarter.....	7,730	14,211	1,013	1,949	11,708	17,446	14,946	15,427	35,397	49,033	45,799	42,074
3rd Quarter.....	9,040	16,239	101	3,094	11,208	14,784	15,497	15,441	35,846	49,558	34,301	29,362
4th Quarter.....	12,167	19,067	448	2,108	11,323	15,753	13,414	15,025	37,352	51,952	33,492	28,865
TOTAL.....	38,809	62,902	2,065	8,636	49,957	66,540	67,329	68,805	158,160	206,913	156,108	140,899
Total—Loaded and Unloaded.....	101,711		10,701		116,497		136,134		365,073		297,007	
Population (000).....	505		109		760		627		2,001		5,744	
Tons per Capita.....	.201		.098		.153		.217		.182		.051	
Ontario												
Manitoba												
Saskatchewan												
Alberta												
British Columbia												
CANADA												
1st Quarter.....	77,882	85,284	17,669	15,214	27,907	30,070	14,238	14,949	17,352	21,931	269,721	264,415
2nd Quarter.....	82,999	87,140	19,362	13,806	30,948	34,051	17,260	12,858	20,106	29,131	271,513	268,093
3rd Quarter.....	50,360	57,373	20,552	16,719	24,794	26,918	20,729	21,294	18,574	20,907	223,793	222,131
4th Quarter.....	53,652	50,150	16,159	12,585	18,415	22,276	12,831	12,857	15,181	17,973	203,060	196,659
TOTAL.....	264,893	279,947	73,742	58,324	102,064	113,315	65,058	61,958	71,213	89,942	967,727	951,298
Total—Loaded and Unloaded.....	544,840		132,066		215,379		127,016		161,155		1,919,025	
Population (000).....	6,895		958		954		1,464		1,862		19,878	
Tons per Capita.....	.079		.137		.225		.086		.086		.096	

Source: Railway Freight Traffic, D.B.S. Cat. No. 52-002  
Estimated Population By Province at June 1, 1966, D.B.S. Cat. No. 91-201

MARITIME TRANSPORTATION COMMISSION  
JUNE 20, 1967

STATEMENT SHOWING A COMPARISON OF THE NON-CARLOAD RAIL RATES FROM WEYMOUTH, N.S. WITH THE POOL CAR RATES FROM MONTREAL, QUE. ON A CHESTERFIELD SUITE (WEIGHING 190 LBS. AND EQUALING 65 CU. FT.) TO HALIFAX, N.S. AND CHARLOTTETOWN, P.E.I.

NOTE—All rates include delivery at destination but exclude cartage at shipping point.

From	To	Rail Miles	Type of Rate	Rate (¢ per 100 lbs.)	Chargeable Weight	Charge Per Suite	Weymouth Advantage (+) Disadvantage (-)	Deterioration In Weymouth's Relative Position
PRIOR TO SEPTEMBER 5, 1967								
Weymouth, N.S.	Halifax, N.S.	171	Rail-LCL	159	190 lbs.	3.02	+7.51	—
Montreal, Que.	Halifax, N.S.	772	Pool Car	554	190 lbs.	10.53		
EFFECTIVE SEPTEMBER 5, 1967								
Weymouth, N.S.	Halifax, N.S.	171	Rail-LCL	168	650 lbs.	10.92	— .39	7.90
Montreal, Que.	Halifax, N.S.	772	Pool Car	554	190 lbs.	10.53		
EFFECTIVE NOVEMBER 20, 1967								
Weymouth, N.S.	Halifax, N.S.	171	Rail-LCL	168	650 lbs.	10.92	+ .18	7.33
Montreal, Que.	Halifax, N.S.	772	Pool Car	584	190 lbs.	11.10		
AS PROPOSED BY THE RAILWAYS								
Weymouth, N.S.	Halifax, N.S.	171	Rail-LCL	111	650 lbs.	7.22	+3.88	3.63
Montreal, Que.	Halifax, N.S.	772	Pool Car	584	190 lbs.	11.10		
PRIOR TO SEPTEMBER 5, 1967								
Weymouth, N.S.	Charlottetown, P.E.I.	358	Rail-LCL	267	190 lbs.	5.07	+5.49	—
Montreal, Que.	Charlottetown, P.E.I.	710	Pool Car	556	190 lbs.	10.56		
EFFECTIVE SEPTEMBER 5, 1967								
Weymouth, N.S.	Charlottetown, P.E.I.	358	Rail-LCL	242	650 lbs.	15.73	—5.17	10.66
Montreal, Que.	Charlottetown, P.E.I.	710	Pool Car	556	190 lbs.	10.56		
EFFECTIVE NOVEMBER 20, 1967								
Weymouth, N.S.	Charlottetown, P.E.I.	358	Rail-LCL	242	650 lbs.	15.73	—4.60	10.09
Montreal, Que.	Charlottetown, P.E.I.	710	Pool Car	586	190 lbs.	11.13		



As Proposed by the Railways  
Weymouth, N.S.  
Montreal, Que.

Charlottetown, P.E.I.  
Charlottetown, P.E.I.

358  
710

Rail-LCL  
Pool Car

164  
586

650 lbs.  
190 lbs.

10.66  
11.13

+.47

5.02

TARIFF AUTHORITY

DARY. Tariff 93-C, CTC(F) 1210  
CPRy. Tariff E.2872-D, CTC(F)E.5320  
CNRys. Tariff CT 31-3, CTC(F)E.4159  
E.T.A. Tariff 100, CTC(ET)4713  
Muirhead Forwarding Limited—Clarke Traffic Services Ltd. Pool Car Tariff C/ML.

MARITIMES TRANSPORTATION COMMISSION  
DECEMBER 11, 1967

STATEMENT SHOWING EXAMPLES OF THE INCREASES REPRESENTED BY THE NEW NON-CARLOAD RAIL RATES WITHIN THE ATLANTIC PROVINCES AND WITHIN AND BETWEEN QUEBEC AND ONTARIO FOR APPROXIMATELY EQUIDISTANT MOVEMENTS

(Rates in Cents per 100 lbs.)

NOTE—All rates include pick-up and delivery service

	Miles	Type of Rate	Minimum Weights						
			300 lbs.	500 lbs.	750 lbs.	1,000 lbs.	2,000 lbs.	5,000 lbs.	10,000 lbs.
From Halifax, N.S. To Sydney, N.S.	294	Former Class 100.....	180	155	139	139	124	108	105
		New Non-Carload.....	222	210	191	191	177	152	136
		Increase: %.....	42	55	71	52	53	44	31
From Montreal, Que. To Bowmanville, Ont.	291	Former Class 100.....	251	251	251	251	251	251	226
		New Non-Carload.....	300	283	283	258	246	224	202
		Increase (or Decrease (-)): %.....	49	32	32	4	-5	-27	-24
			20	13	13	3	-2	-11	-11
From Saint John, N.B. To Truro, N.S.	215	Former Class 85.....	145	139	122	122	110	98	95
		New Non-Carload.....	204	194	194	170	158	135	121
		Increase: %.....	59	55	72	48	48	37	26
From Windsor, Ont. To Brampton, Ont.	211	Former Class 85.....	200	200	174	174	153	143	129
		New Non-Carload.....	225	242	242	220	206	190	173
		Increase: %.....	55	42	68	46	53	47	44
			28	21	39	26	35	33	34
From Halifax, N.S. To Campbellton, N.B.	375	Former Class 70.....	152	152	151	151	134	112	109
		New Non-Carload.....	256	242	242	221	208	179	160
		Increase: %.....	104	90	91	70	74	67	51
From St. Thomas, Ont. To Sudbury, Ont.	373	Former Class 70.....	233	233	230	230	205	191	172
		New Non-Carload.....	320	303	303	276	263	240	216
		Increase: %.....	87	70	73	46	58	49	44
			37	30	32	20	28	26	26

From Sydney, N.S.....}	427	Former Class 55.....	138	138	138	119	116
To Newcastle, N.B.....}		New Non-Carload.....	268	254	219	185	174
		Increase: \$.....	130	116	81	66	58
		%.....	94	84	59	55	50
From Montreal, Que.....}	414	Former Class 55.....	208	208	208	208	187
To Welland, Ont.....}		New Non-Carload.....	335	317	275	252	226
		Increase: \$.....	127	109	67	44	39
		%.....	61	52	32	21	21

TARIFF AUTHORITY  
CNRys. Tariff CM 300-15, CTC(F)E.4186  
CNRys. Tariff C 19-1, CTC(F)E.3901  
CNRys. Tariff CT 28-2, CTC(F)No. E.4130  
CNRys. Tariff CT 31-3, CTC(F)No. E.4159  
E.T.A. Tariff 100, CTC(ET)4713

MARITIMES TRANSPORTATION COMMISSION  
DECEMBER 11, 1967



## APPENDIX 4

## TABULATION OF STATEMENTS BY ATLANTIC BUSINESS AND INDUSTRY RESPECTING EFFECTS OF NEW NON-CARLOAD RATES ON INDUSTRIAL DEVELOPMENT OR EXPANSION IN THE ATLANTIC PROVINCES

1. G. W. Birch, Manager, Chestnut Canoe Co. Limited, Fredericton, N.B. at Non-Carload Rate Conference, Halifax, N.S., November 15, 1967.

"My Company, my Company's Directors and Shareholders can not look to the future with joy, but only with grave concern. We cannot predict what our future will be in the Atlantic Provinces. Only a radical change in the present proposals of rail tariff by the way of reductions in rates and the elimination of cube rates is going to ensure our future in this area where our Company has been located since conception in the year 1897.

Ladies and Gentlemen our future in the Atlantic Provinces is at stake."

2. C. M. P. Fisher, Vice President, The Enterprise Foundry Company Limited, Sackville, N.B. at Non-Carload Rate Conference, Halifax, N.S. on November 15, 1967.

"The net result of Tariff #100 is to increase our cost of manufacture and increase the cost of transporting our product to our customers. This worsens considerably our competitive position with Central Canada Manufacturers whose competition is already severe. They are more strategically located, both as to obtaining their materials at a lower cost, due to freight, and being close to the mass markets, and thus much lower distribution costs.

The continued existence of our industries is dependent on their *relative* competitive position with similar manufacturers in those more densely populated areas in Quebec and Ontario. Consideration of the matter should be on a comparative basis.

Secondary industry is badly needed in the Atlantic Provinces to round out our economy and to provide that great stabilizing influence, the weekly pay envelope, that maintains communities in prosperity. To accomplish this end not only do the present industries here need the opportunity but more industry needs to be

developed, but for this development there must be conditions suitable to the prospective and more importantly the present manufacturer so that he will be in a position to market his production economically and competitively in the large and broad markets of Canada. It seems, due to the way in which freight rates have been increased, that the effect has been the reverse of the original idea of unity, namely to have resulted in a tearing apart of Canada and a great centralization of industry in Ontario and Quebec to the detriment of other provinces. I believe that this condition can only be overcome by removing the uneconomic and what appears unjust situation which now exists and which throughout the last many years has steadily worsened the situation of the producers in the Atlantic Provinces."

3. Newfoundland Board of Trade as reported in the St. John's Evening Telegram, November 9, 1967.

"Tariff 100, imposed on less than carload freight shipments, is having an adverse effect on trade in Newfoundland, and will also affect establishment of new industry in the province, the Newfoundland Board of Trade feels, and the group has agreed to continue efforts to have the tariff removed or suspended until other arrangements can be made.

Full backing was given to the board during a general meeting in Hotel Gander Wednesday."

4. Robert Leslie, Assistant Treasurer, United Elastic Limited, Bridgetown, N.S. as reported in the Halifax Chronicle Herald, November 1, 1967.

"Twenty-five per cent of the business of United Elastic Ltd., Bridgetown is in danger of being priced out of the market by rail freight increases.

Management will be taking a hard look at the future of the elastic webbing and weaving division of the firm which employs about 100 people, said Robert Leslie, assistant treasurer.

Webbing and weaving is shipped out in non-carload lots to manufacturers in several Upper Canada centres, said Mr. Leslie.

Profit margins on it are not very high and the new freight costs are eating into them. The increases range from 25 to 33 per cent."

5. Sol Gilis, Manager, Thistle Knitwear Company, Limited, Yarmouth, N.S., as reported in The Halifax Chronicle Herald, November 2, 1967.

"Sol Gilis, manager of Thistle Knitwear Company Ltd., Yarmouth, said he has had to postpone indefinitely plans to start a shirtmaking division.

And he added: "If these handicaps keep mounting the west of Nova Scotia won't be the place for industry."

Thistle employs 50 people. Mr. Gilis has been in Yarmouth 18 years. Everything shipped to and from the plant goes non-carload rail freight.

Costs have gone up 100-200 per cent since the recent increases, said Mr. Gilis.

Some sweater lines were having to be discontinued because freight charges are pricing them out of the market."

6. Mr. T. Lane, Sales Manager, Industrial Shipping Limited, Mahone Bay, N.S. as reported in The Halifax Chronicle Herald, October 20, 1967.

"The new rates would triple the cost of his firms less-than-carload shipments to dealers across Canada.

"We will certainly lose sales," he said.

Transportation is one of the firm's biggest headaches, and these new rates will make it even bigger."

7. Mr. D. G. MacLeod, President, Nova Headwear Ltd., Truro at Non-Carload Rate Conference in Halifax, N.S. On November 15, 1967.

"It (the new rates) not only creates a burden on the existing manufacturing in the Atlantic Provinces but it certainly will deter any manufacturer in secondary manufacture position from locating in the Atlantic Provinces. This I can tell you the Department of Trade and Industry because we are a new industry; we bring several prospective clients around to talk to us to see how happy we are in

Nova Scotia. Believe me it is beginning to get very difficult in lieu of the transportation system here to get very difficult in lieu of the transportation system here to tell these people, come on down, because we can assure them that we are not the least bit competitive."

8. Mr. S. S. Cairns, Plant Manager, Hostess Food Products Limited, Kentville, N.S. at Non-Carload Rate Conference, Halifax, N.S., November 15, 1967.

"It seems to me that all Maritime producers in our industry will be severely penalized. Newfoundland has 20 per cent of the Atlantic Provinces population. Maritime producers will be faced with great increases in that particular area or close to 100 per cent while Quebec and Ontario manufacturers will continue to use water transportation from Montreal, with little or no increase in costs and a substantially reduced delivery time. Maritime manufacturers will be paying vastly increased rates within the provinces while forwarding companies providing a service and a good service from Ontario and Quebec to major centers in the Maritimes will continue to bring in competitive brands and products at approximately the old rates. I say approximately because very recently there has been increases even on carload freight rates as you are all aware. These increases (on carload freight) are perhaps in the level of 5 to 8 per cent but we wouldn't consider that an increase in the face of what we have here on non-carload rates."

9. Mr. Starr Pattillio, Manager, T. S. Pattillio & Co., Limited, Truro, N.S. at Non-Carload Rate Conference, Halifax, N.S., November 15, 1967.

"The only reason we have been able to ship this fall is where the old class rates are still in effect. We are performing our own local trucking. Our customers are picking this up out at the freight shed so the increase is not too bad. If the new rates go in all consumers in the four Atlantic Provinces will have to pay more for the items."

## APPENDIX 5

STATEMENT SHOWING SOME RANDOM COMPARISONS OF THE PRESENT RAILWAY LESS THAN CARLOAD FREIGHT RATES, WHICH THE RAILWAYS PROPOSE TO CANCEL, WITH THE NEW NON-CARLOAD RATES AND PROPOSED NON-CARLOAD RATES.

NOTE.—The present railway less than carload class rates exclude both pick-up and delivery service whereas the new and proposed non-carload rates include this service.

Commodity	Type of Rate	Rate (¢ per 100 lbs.)	Chargeable Weight	Charge Per Shipment	Increase Per Shipment (New Non-Carload Rates)		Increase Per Shipment (Proposed Non-Carload Rates)	
					\$	%	\$	%
1 "Pal" Canoe..... From Fredericton, N.B. To Montreal, Que.....	Class.....	513	90 lbs.	7.62			16.76	220
	New Non-Carload.....	254	960 lbs.	24.38			16.76	220
	Proposed Non-Carload....	254	960 lbs.	24.38				
1 Oil Storage Tank, Steel 200 gal. capacity..... From Moncton, N.B. To St. John's, Nfld.....	Class.....	297	200 lbs.	5.94			13.57	228
	New Non-Carload.....	508	384 lbs.	19.51			13.57	228
	Proposed Non-Carload....	508	384 lbs.	19.51				
100 ctns. Potato Chips.... From Kentville, N.S. To Stephenville Crossing, Nfld.....	Class.....	260	300 lbs.	7.80			16.40	210
	New Non-Carload.....	242	1,000 lbs.	24.20			16.40	210
	Proposed Non-Carload....	185	1,000 lbs.	18.50				
12 ctns. Trunks..... From Amherst, N.S. To Halifax, N.S.....	Class.....	130	600 lbs.	7.80			10.02	128
	New Non-Carload.....	135	1,320 lbs.	17.82			10.02	128
	Proposed Non-Carload....	93	1,320 lbs.	12.28				
10 Mattresses (Springfilled)..... From New Glasgow, N.S. To Truro, N.S.....	Class.....	125	600 lbs.	7.50			9.30	124
	New Non-Carload.....	120	1,400 lbs.	16.80			9.30	124
	Proposed Non-Carload....	78	1,400 lbs.	10.92				



APPENDIX A-73

SUBMISSION

BY

THE MONCTON BOARD OF TRADE

February, 1968

Mr. Chairman, Gentlemen:

The Moncton Board of Trade is one of 850 members of Boards of Trade and Chambers of Commerce across Canada with a local membership of 550.

Transportation costs are one of the most serious problems affecting the economic life of our community, and the whole Atlantic Area at the present time.

The need for special consideration on this question has been recognized in many ways since Confederation. Many studies and enquiries have been made with respect to this important problem. As your committee has access to this information and as other briefs will undoubtedly cover the historical facts involved, we in this submission will restrict our remarks to the effect, transportation costs has on the economic life of our community as it applies to Employment, Industry and Retail Business.

EMPLOYMENT

A high rate of employment in any City or area results in overall economic well being. It may be asked, "How does transportation affect employment?". In many ways, of course, but as transportation costs add directly to the operating cost of Industry and Retail Business, the opportunity of expansion becomes extremely limited—and with it the opportunity for increased employment. In fact we believe if present transportation increases are permitted to remain in effect, we can anticipate a decrease in employment opportunities as a direct result.

INDUSTRY

In order to encourage the establishment of new industry it must be shown that there is a reasonable opportunity to realize a return on the required capital investment. In the large

markets of Montreal and Toronto, due to the concentration of population, a new industry is likely to be able to develop a sales volume in the immediate area sufficient to establish a break even point. With little extra investment and effort the situation may be converted into a profitable enterprise. However in this area since our local markets are limited, industry must be given offsetting advantages in order to compete in the larger population centres, thereby ensuring our ability to make a significant contribution to the National economy.

Moncton, being the transportation centre of the Maritimes is particularly vulnerable to any increases in transportation costs, such as the new less than carload rates. This is because of the long distances involved in servicing small population centres, resulting in a larger volume of regional traffic falling in the less than carload category. Present rates applicable to this traffic make the possibility of business expansion doubtful, and the attraction of new industry most difficult.

The Atlantic Provinces also require improved highways. The provision of good all-weather highways should assist in increasing the intensity of competition with a co-commitment improvement in rates and services to shippers and receivers. The scattered nature of our population, the level of our industrial development, the circuitry of our highways between centres of population because of the indentations of the sea and the necessity of using ferry service with the associated delays, as well as the taxation policy of the Provincial Government all contribute to higher cost of trucking in the Atlantic Provinces than elsewhere.

RETAIL BUSINESS

A large number of our retail establishments may be classed as medium to small, incoming and outgoing shipments by these businesses are necessarily less than carload lots, you will

readily see that rates of transportation seriously reduce their ability to compete with the larger organizations who in most cases are able to utilize full carload service.

When increased transportation costs are added to retail prices the sale of lower priced merchandise is more adversely affected than higher priced goods. For example it costs as much to transport a low price piece of furniture as it does a high priced unit, but the percentage of increase in the selling price is much greater on the lower priced furniture than it is on the higher priced article, in the order of 10 per cent higher. Thus hardship is imposed on those least able to afford it.

In cases where goods are rated on bulk rather than weight in calculating freight costs, articles such as mattresses, the increase in transportation costs have been extremely severe.

We are informed by one merchant that on a 30 lb. parcel shipped from Moncton to Newcastle the rate has increased 69 per cent,

while on a 80 lb. parcel from Moncton to Bathurst the rate has increased 80 per cent.

These added charges are resulting in increased costs to the consumer, raising the cost of living and thereby contributing to the wage-cost spiral.

#### RECOMMENDATIONS

(a) That the recent increase in railway freight transportation rates be cancelled at the earliest possible date.

(b) That the Parliament of Canada institute a National Transportation Policy covering all means of transportation which will take into account the special needs of the Atlantic Provinces and undertake to provide the necessary financial assistance from general revenue.

Respectfully submitted,

J. Harold Wallace, President Moncton Board of Trade

## APPENDIX A-74

## A SUBMISSION

by

MARITIME CO-OPERATIVE SERVICES LTD.

Honourable Sirs:

Before making our submission, we would like to commend this Committee for the time and effort it is expending in order to make a thorough study of the matter under review. Your scheduling of hearings throughout the Atlantic Provinces makes it possible for many business firms, organizations and individuals, to make their views known, which would not be the case if the Committee had attempted to conduct its examination entirely from Ottawa.

We hope that the wisdom of the recommendations which you present to Parliament will reflect the thorough manner in which you are investigating the transportation problems of the Atlantic Area.

The matter of transportation into and within the Atlantic Provinces is one of major direct concern to Maritime Co-operative Services Ltd. We are a Wholesale Co-operative organization serving more than 120 retail co-operatives and Agricultural Societies throughout the four provinces. We provide a manufacturing and wholesaling service in livestock and poultry feeds, and a wholesale service in agricultural supplies, groceries, hardware, petroleum products and dry goods, and in Eastern Nova Scotia a retail building supplies operation.

Approximately 80 per cent of our total merchandising operation is concerned with providing vocational and consumer supplies to farmers.

Our annual volume of merchandise exceeds 150,000 tons. Most of this originates as ingredients or finished products in Western or Central Canada, and is moved to us by rail or water transport. Approximately 20 per cent of this tonnage is delivered to our retail co-operatives direct from its point of origin. The remainder is distributed through our regional mills and warehouses, moving to local outlets by motor transport or by rail. Any increase or

decrease of even a few cents a ton in transportation costs has a significant reflection in the efficiency of our business operation.

We do not intend in this submission to catalogue in detail the effect of transportation policies adopted by successive Federal Governments in their attempts to equalize economic opportunities for Maritime agriculture and secondary industry vis a vis Central Canada. We will, however, comment on five aspects of the situation which have a bearing on the transportation problem in our area.

#### 1. PROTECTIVE TARIFFS

Our seaboard location provides us with an advantage in the procurement of a few classes of vocational and consumer goods that must be imported. However, the protection of secondary industry in Canada against cheaper foreign imports notably from the United States has forced the Atlantic Provinces to purchase most of its manufactured goods from Central Canada. We have had to pay our share of the tariff protection, and have also had to pay the costs of transporting many of our production and consumer requirements across land, mostly by rail, instead of by water up the Atlantic Seaboard from the United States.

As a matter of principle, we have no objection to paying for the economic growth of Central Canada, on condition that sufficient measures are taken to stimulate the economic growth of the Atlantic Region. We would submit, however, that to date, equalization grants, A.D.B. projects, A.R.D.A. projects, the Maritime Freight Rates Act, the Feed Freight Assistance Policy, and all other measures for the transfer of funds from the Federal Treasury to the benefit of the Atlantic Area have not equalled the price we have paid for tariff protection and added transportation costs as the result of National Policy.



We recommend the updating of transportation policies toward the region to equalize the cost of movement of goods from tariff protected industrialized Central Canada, and of movement into that market by what industry we can develop.

## 2. COMPETITIVE TRANSPORT

Since the early 1930's in those areas of Canada blessed by industrial growth and its resulting concentration of people, the trucking industry has been able to achieve a high rate of efficiency, and successfully compete with the railroads in the movement of commercial freight. As highways have become improved, the distances have increased over which motor transport could operate without loss of efficiency. The railways in these heavy freight traffic areas have reduced their rates, or not taken full advantage of general increases in order to remain competitive with highway transport.

As a result of our lower rate of industrial growth and smaller population, it is not possible for our trucking firms to achieve the same efficiency in value of merchandise delivered per man day as is possible in Central Canada. The railways have therefore not been forced through truck competition to lower their rates in the Atlantic Provinces as has been the case in Central Canada.

The method of applying horizontal percentage increases to rail rates has acted as a serious handicap to the region because of the longer hauls and higher rates.

(SEE EXHIBIT NO. I)

Our highway weight restrictions, due to the conditions of our highways, have affected the development of our trucking industry and added to our transport cost.

As an example; we recently had a truckload of wooden pallets shipped from a point in Quebec to Moncton. When the trailer truck reached the New Brunswick border it was found to be overweight as per N.B. weight limits and had to unload 150 of 600 pallets.

This necessitated our arranging to have these pallets moved by another truck, adding drastically to the delivered cost.

This example, used in reverse, would mean that a truck originating in the Maritime Provinces is unable to carry as much weight as a truck originating in Quebec. This simply means that the Maritime trucker is unable to quote a rate per mile as attractive as the

Quebec trucker, which means increased cost in moving our products to the central markets.

This situation will be rectified in the Atlantic area with the construction of more miles of improved highway and the establishment of more secondary industry and a larger population.

We recommend the continued use of federal funds to assist our provinces in the construction of improved highways, and for incentives for the establishment of secondary industry; as part of the answer to our transportation problem.

## 3. WATER TRANSPORT

Besides highway transport, another method of commercial freight movement to and from the Atlantic Provinces is by water.

In the movement of production and consumer goods from Central and Western Canada to the mainland provinces of the Atlantic area, water transportation is limited. We note, however, that in the movement of feed grains, the cheaper water rates have had the effect of causing the railways to lower their rates to meet water competition.

(SEE EXHIBIT II)

The development of more and better port facilities in the Atlantic area would no doubt increase the opportunities for export movement of local products, and result in lower transportation costs for production and consumer goods moving into the Atlantic area.

We recommend continued use of federal public expenditures for improved port facilities in the Atlantic area as part of the answer to our transportation problem.

## 4. RAILWAY POLICY

Encouragement of more secondary industry, improved highways and port facilities, would be long term in their effects on transportation. For the present, and no doubt for some years to come, the railways remain dominant in the movement of production and consumer goods into the Atlantic area, and exportable products moving out of the Atlantic Area.

We believe that the logic which guided the architects of the Maritime Freight Rates Act is still valid. The weakness in the MFRA was that it was not able to take into account the uneven increase in freight rates which have

prevailed in the Atlantic Provinces vis a vis Quebec and Ontario as a result of the competition from the trucking industry in the two latter Provinces and the application of horizontal percentage increases. General increases in freight rates were applied to a greater degree in the Atlantic area than in Central Canada. This has more than offset the intended advantage of the MFRA.

Effective September 5, 1967 users of non carload rail services in the Atlantic Provinces were faced with a drastic revision in rates, rules and conditions of carriage, resulting in increases of up to 152 per cent.

For reasons outlined earlier few alternatives are available to users of such services at present. As a result many consumers must pay drastically more for goods. In the past we have seen promising secondary industries die all over the area due only to high transportation costs. It is this type of increase that kills them and prevents the area from developing.

(SEE EXHIBIT III)

We recommend:

- (a) That the M.F.R.A. be amended to place this area competitive with central Canada by covering transportation costs between Montreal and the Atlantic area on both inbound and outbound shipments.
- (b) That a substantial downward revision be made in present non-carload rates in the region.
- (c) That the optional L.C.L. rates be maintained.
- (d) That the M.F.R.A. apply to other modes of transport.

5. FEED FREIGHT ASSISTANCE

Freight assistance on grain moved from Western Canada to Eastern Canada was instituted in 1941, not as a wartime measure, but as a result of requests originally from the Atlantic Provinces (in mid 1930's) and later from Western grain growers and feeders in all of Eastern Canada (March 1939 and subsequent thereto).

The original request was for the export rail rate to apply on domestic feed grain as it was possible to move grain on the export rate through Halifax to Europe and back to Halifax cheaper than to move it to Halifax on the domestic rate.

In the ensuing years this policy has been of great help to feeders in this area, in fact without it we would have much less agricultural production.

Grain however, now accounts for only about 75 per cent of the rations fed to livestock. The balance is mostly vegetable protein which must be transported from west of the area at high freight rates. This places the feeders of this area at a great disadvantage over feeders in Central Canada as they must compete with finished livestock products which move at much less cost from Central Canada or the U.S.A.

We recommend that vegetable protein feeds of Canadian origin moved to the Atlantic provinces be eligible for transportation assistance on the same basis as grain.

Respectfully submitted,  
Maritime Co-operative Services Ltd.  
Moncton, N. B.

## EXHIBIT I

RAILWAY PER CAR MILE REVENUE ON FOODSTUFFS C-L MIN 30,000 lbs.  
WITHIN ONTARIO AND QUEBEC

Miles	Rate ¢ cwt	Rev. Per Car Mile
179	43¢	72.1¢
198	45¢	68.2¢
217	45¢	62.2¢
350	49¢	42.0¢

## WITHIN MARITIME PROVINCES

Miles	MFRA Rate ¢/cwt	Rev. Per Car Mile	M.F.R.A. Subsidy ¢/cwt	Rev. Per Car Mile	Total Rev. Per Car Mile
180	42¢	70.0¢	10¢	16.7¢	86.7¢
275	55¢	60.0¢	14¢	15.3¢	75.3¢
294	71¢	72.4¢	18¢	18.4¢	90.8¢

RATE AUTHORITY  
C.N.R. CM 300-15  
C.N.R. CM 195

MFRA SUBSIDY  
25% of Published Rate

## EXHIBIT II

EFFECT OF WATER COMPETITION ON RAIL GRAIN RATES  
Rates in ¢ per cwt.

COMMODITIES: Wheat, Oats, Barley, Screenings, Rye (in bulk or bags)

From Ft. William, Ont.	Distance in Miles	C.F.A. Agreed charge 2438 Carload minimum in lbs.						C.N.R. CG 67-3 Carload Min. (see below)
		60,000	70,000	80,000	90,000	100,000	120,000	
Grand Falls.....	1312.3	87	84	81	79	77	75	99
Charlottetown.....	1632.4	82	79	76	74	72	70	107
Kensington.....	1610.0	81	78	75	73	71	69	107
Moncton.....	1506.6	72	69	66	64	62	60	99
Montague.....	1669.3	86	83	80	78	76	74	112
South Devon.....	1442.9	82	79	76	74	72	70	99
Summerside.....	1618.3	81	78	75	73	71	69	99
Sussex.....	1548.4	75	72	69	67	65	63	99
Tatamagouche.....	1619.8	65	62	59	57	55	53	107
Truro.....	1613.4	60	57	54	52	50	48	107

C.N.R. C.G. 67-3  
CARLOAD

Minimum weights in pounds when capacity of car is:

	80,000 and less than 100,000	100,000 and over
Wheat.....	80,000	120,000
Oats.....	60,000	80,000
Barley.....	80,000	100,000
Screenings.....	50,000	75,000
Rye.....	80,000	112,000



EXHIBIT III  
NON CARLOAD FREIGHT COST COMPARISON

No.	Destination	Pieces	Weight	Col. 1		Col. 2	Col. 3		Col. 4	Col. 5		Col. 6
				E.T.A. (100)	Truck		Present C.N.R. Class	Old Express		Old L.C.L. (P. & D.)	C.N.R. Motor Comp.	
1	Cheticamp (2) and (3)	8	430	9.55	10.79	8.14	10.53	8.35	20.71			
2	Cheticamp (2) and (3)	25	1,490(4)	29.61	34.72	25.34	36.51	25.78	8.37			
3	Inverness (3)	12	540	11.34	12.58	8.86	13.23	8.05	10.63			
4	Judique (3)	18	765	16.07	17.82	11.10	16.45	10.94				
5	Mabou (3)	8	295	6.90	6.88	5.01	7.23	5.10				
6	Mabou (3)	26	915	19.10	21.32	15.42	22.42	15.68	12.72			
7	Port Hawkesbury	3	300	5.00	5.61	4.98	6.45	4.53	15.14			
8	Port Hawkesbury	11	1,130	19.21	18.42	18.75	24.31	17.07	8.45			
9	Port Hood (3)	5	545	11.45	12.69	9.26	11.71	9.43	30.36			
10	Sydney	18	2,335	44.83	28.95		63.05	40.40				
				173.06	169.78	150.06	211.89	145.33	106.38			
								(5) adj.	124.36			
RELATIONSHIP TO COLUMN 1												
Col. 2	IS	2%	IS	Less	Col. 3	IS	12%	Less	Col. 4	IS	41%	More
Col. 3	IS	13%	IS	Less	Col. 4	IS	25%	More	Col. 5	IS	3%	Less
Col. 4	IS	22%	IS	More	Col. 5	IS	14%	Less	Col. 6	IS	17%	Less
Col. 5	IS	16%	IS	Less	Col. 6	IS	27%	Less				
Col. 6	IS	28%	IS	Less								
RELATIONSHIP TO COLUMN 4												
Col. 5	IS	31%	IS	Less	Col. 6	IS	14%	Less				
Col. 6	IS	41%	IS	Less								

(1) Charges adjusted to include cost of pick-up at Moncton and delivery where available.  
(2) Rail destination is Inverness.  
(3) Delivery not performed by railway.  
(4) This shipment was adjusted by 60 lbs. due to density.  
(5) This total was adjusted to include charges for 3 shipments weighing less than 500 lbs.

## APPENDIX A-75

BRIEF by

MAJOR D. A. MACDONALD

Moncton, N.B.

February 12th, 1968.

Gentlemen:

The question of transportation in a country such as Canada, with such a vast space, is one of the greatest tasks in the world. Twenty million people spread over four thousand miles and to serve these equally with their climatic conditions and their great difference, in the producing of different commodities. These commodities are vital to the nation as a whole and must be carried across this land to all people.

The world has advanced, to the betterment of man, more in the past fifty years than it did since the beginning of time. I do believe it will still advance and keep on advancing. This continent will lead as it has in the past, and we are fortunate that Canada is part of North America. It has put forward, in the past fifty years, the greatest achievements of man. It has put forward a strength and a wisdom at a great sacrifice to keep the rest of the world on an even keel. Canada stands equal partners to this as good neighbours should.

Canada owes no country anything. We have paid for every grave where our noble soldiers lie. The only gift that was ever given to Canada was the land that surrounds the monument on Vimy Ridge. All these cemeteries over the world are cared for by Canada. We must link the noble work completed in the past with the present and add to it, which I am sure we will. I am confident that the young men and women who are leaving their schools and going out into the world will carry the torch of freedom as the men and women did in the past. I am sure they will meet the great challenge of the ever changing conditions.

The great tide of commodities does not remain in the same direction. It is forever changing. One of the greatest financial blows to the Maritimes and the Canadian National Railway was the opening of the St. Lawrence Seaway. But it is the greatest uplift to this

continent since the great railway crossed this vast and fertile land and passed over the Rocky Mountains, linking the two great oceans, the Atlantic and the Pacific. God gave Ontario more than any other place in the world. With the opening of the Seaway the ships of the seven seas can sail up two thousand miles from the ocean to the bosom of this continent to the greatest market for all commodities in the world. Let us not forget the great power that has been entrusted to these two nations of friendly neighbours.

The Canadian National Railway is the link that binds the country together, from British Columbia to Newfoundland, and must be looked upon as an asset, the same as our wonderful postal service, our Department of Justice and other Governmental Departments.

These are things that bind us into a nation. If should not be looked upon as a commercial enterprise, but one that serves the people, so that everyone will be able to make a living in an enterprise of his desire.

The railway is a great organization, equipped and well manned to carry out gigantic undertakings. The railway should not compete in any private enterprise. For example—I will go back to 1930, when they advertised to build a hotel in Charlottetown. I wrote to the railway at the time, objecting to this. There were several hotels in Charlottetown at the time, very nice places. The biggest one went out of business. This hotel the railway built has cost them around fifty thousand dollars a year, since it opened. Look at the vast waste in the City of Moncton. There was nothing wrong with the railway station, a good solid building, with lots of room, and the General Office, good for a thousand years, an artistic building, which would have been, in a few years, a sight-seeing place for tourists.

They destroyed a flower garden which was second in the Maritime Provinces to the Halifax Public Gardens. This was all destroyed so that somebody would make a fortune out of the railway. They built a Queen Elizabeth

Hotel in Montreal and turned it over to a private concern to operate it. The railway should not be in the lending business. The railway should stick entirely to railroading and be subsidized by the Government as it is. It has to transport heavy commodities from sections of the country at a loss, but this special commodity is essential to the country at large.

Commuting trains—I will take for example from Moncton to Saint John, where it runs parallel to a highway and bus service. This is not realistic or sound. A bus is a very convenient way to travel as it picks up its passengers along the highway, in front of people's homes, whereas, if they were travelling by train, they would have to be driven several miles to the station. But for a long distance, I think it is as pleasant a day and night to leave Halifax aboard one of these trains travelling to Toronto. To me this is a master transportation of the highest standard. Canada must not lose this. The railway should not be in the trucking business nor running around picking up ten pound parcels. This service is a waste when a man can put a few cents on his parcel and put it in the Post Office. It seems to me ridiculous for the railway to be at the beck and call for small parcels. I am sure this is where the great loss is.

Motor cars have revolutionized the standard of living and the great demand to-day is highways.

There was a great error on the part of the Government and the Department of Transport at the time of the negotiations of the St. Lawrence Seaway and the building of same. Some definite action should have been given to the Maritime Provinces to offset this great loss to the Provinces. They knew, or should have known, the effect this was going to have on our economy in the Maritimes. The Maritimes should have had a grant from the Dominion Government and the Central Provinces, as the Seaway was going to be a great asset to them.

It is not too late, and my suggestions are that a board should be set up with power to equalize the effect in the changes and advancements of our nation. Better still, a department be set up headed by a Minister of the Crown, to control and govern equalization across this country. We are bound to have ever changing conditions. It seems to me a folly for one Provincial Government or Municipality handing out grants to manufac-

turers in other Provinces or places to move to their Province. Ninety per cent of all firms doing business in the Maritimes have their head office either in Central Canada or Foreign Countries. All profits are lost to the Maritimes.

The Maritime Provinces must be helped to start producing their own commodities, as the rest of Canada owes it to them. We do not produce enough to supply our own markets. Our land is not producing 10 per cent of what it could. Irrigation should be set up, whereby fine vegetables could be grown. We produce the best strawberries in the world. Our poultry, other meats and dairy products are produced from stock disease free. We are not producing other commodities such as paper, gypsum board, cement and lime, and many others, as we should.

One salvation would be a Master Highway from Halifax to Earltown, from Sydney to Earltown, from Earltown to Moncton, from Charlottetown to Moncton, from Moncton to Bangor, Maine, connecting with The Super Highway 95. From Campbellton to Waite, Maine, connecting with the highway from Moncton. This highway to be built with a boulevard, one way traffic, with a speed limit of 75 miles an hour for trucks. An agreement should be made with the New England States that we and they have a mutual duty free market for all our commodities. Commodities shipped into the Maritimes would be stamped "Maritime Consumption Only". I am quite convinced that if such a plan was carried out the Maritime Provinces would become equal to the rest of Canada. This is our natural market. They need us and we need them. If our products can be loaded on the vans at the farms or the doors of the manufacturers, within twelve hours time they can be in the supermarkets for sale. Then there will be a profit.

Our Post Offices should be located in a more convenient place. The Main Post Office in Moncton is most inconvenient, climbing ten steps over snow banks, opening four heavy metal doors, is a task for anyone. A new Post Office was opened on Mountain Road as cheap as it could be done. I think it had been used for a barber shop. Not a place to park a car or even stop one. Post Offices should be in all supermarkets, so that the public would be able to mail their parcels conveniently. The Postal Service is an excellent service, as I have said before, and I am sure they are ready and willing to handle the



bulk at a much cheaper rate than the express. I feel that the remainder of what the express is carrying could be handled by freight.

In closing, I would like to refer to interest rates. I have always had the highest regard and confidence in the National Banks in Canada. They have the greatest record in the world. But it was a cruel and unwarranted act on the part of the Government to open the door and allow people to charge any rate

of interest they wished. I do not blame this on the National Banks. For years there was no restriction on Finance Companies and I believe the great difficulty facing us now is the running away of high interest. The rich are certainly going to get richer. Interest should be pegged at 6 per cent and this can be done.

Respectfully submitted,

Major D. A. Macdonald,

## APPENDIX A-76

ENAMEL & HEATING PRODUCTS LIMITED  
SACKVILLE, NEW BRUNSWICK

February 12, 1968.

This Brief is submitted by ENAMEL & HEATING PRODUCTS LIMITED, a Company incorporated under a Dominion Charter, and employing at present an average of 600 to 800 people in four Plants.

Through one of our predecessor companies we have been manufacturing Cooking and Heating Appliances (that is, stoves, ranges, heaters, furnaces, et cetera) at SACKVILLE, NEW BRUNSWICK, for over one hundred years.

Our predecessor company, CHARLES FAWCETT LIMITED, was one of the first, if not *THE* first company to manufacture ranges, heaters, furnaces, et cetera, in Eastern Canada. Prior to that the needs of the Eastern Provinces were supplied largely from Massachusetts. Maritime-made goods found favour in the Canadian market as long as transportation costs made the Canadian markets available to the Eastern manufacturer.

By the turn of the Century there were twelve to fifteen plants in the Maritimes turning out this kind of goods. As transportation costs increased however it became more difficult to compete in the larger market. The Maritime Freight Rates Act helped temporarily until the Railway found ways of eroding the M.F.R.A. benefit. The drastic increase in freight rates in the late forties and early fifties finally closed the broad market to most of the firms in this business here in the East until today there are only the two firms left—The Enterprise Foundry Company, Limited, and our firm. Since, insofar as ranges, furnaces, et cetera, are concerned, the two firms are similar, we would suggest that probably most or all of the points covered in their submission would apply equally to our firm so we would hope when considering that brief you would think of it as applying to two companies. In the same way we would expect that most of what we have in this brief will also apply to them. If so, that would be two companies with similar problems, and possibly most of the secondary manufacturers in

the area would be effected along the lines indicated by the graphs attached. On that basis we are not going to deal with specific rates and conditions but are going to attempt to help you by submitting a broad or overall picture as it applies to firms and plants such as these. As transportation costs began to close the broader Canadian market to us we started to diversify and at times have manufactured Sanitary Enamelware, also Railway car wheels. At present, in addition to our lines of ranges, heaters, furnaces, et cetera, we are turning out substantial tonnages of Reinforcing Steel Bars for concrete, also operate a modern fully-equipped plant for Aircraft maintenance, overhaul and component manufacture. The range, heater and furnace lines though have been active with us for well over one hundred years and serve best to give you information that we hope will be helpful to you.

Please refer to the chart attached to this brief. We could go back further in time, but up to the late 'teens the effect of freight increases had not shown very much. This is normal because there is always a time lag, while the pattern of the flow of business changes, following each major change in costs.

The line marked "A" on the graph shows the percentage of our out-turn of ranges, heaters, furnaces, et cetera, which went *outside* the four Atlantic Provinces for each of the years 1923 to and including 1967. You will see the percent ran about constant 1923 to 1927. In 1928 the effect of the increases that brought the Duncan Commission into being, began to show and the percentage dropped sharply.

In 1927 the M.F.R.A. came into effect and as its benefits began to have effect an improvement shows for a couple of years. Then the Railway introduced a free Pick-Up and Delivery Service for L.C.L. shipments within the Central Provinces. Shipments that originated in the Maritime zone however were subject to charges for this service, which charges on shipments to Montreal for

example, approximated the benefits from M.F.R.A., thus cancelling them out, *contrary to the intent of the M.F.R.A.* The result of this was to put the Maritime manufacturers at a further disadvantage compared to those manufacturers located in the Central zone and the effect of it and the Depression of the thirties show in the graph for the years 1931, 1932, 1933 and 1934, which finally brought the percentage of goods going outside the area to an all time low of less than 50 per cent.

While these things effected the Central market for the time, the relative position had not been too drastically effected Nationwide. As we came out of the depression of the thirties we were able as you will see, by turning out better goods than some of the people in Central and Western Canada, to build on the contacts of the years before and get up precariously to above the 60 per cent again, and carried on there in the period of frozen prices and freight rates to the late forties.

The peak shown for 1947 and the hollow of 1948 were the products of a combination of peculiar non-repeating circumstances—the aftermath of the War which artificially raised the figure for 1947 and lowered it for 1948.

In 1948 the first of the series of horizontal freight increases took place. We have endeavoured to indicate these increases by time and amount by a second line, marked "B" on the graph. You will note the increases added up to a peak of 157 per cent over the frozen rates of the early forties.

On this line we have indicated two points in time and freight rate levels by the letters "X" and "Y". "X" indicates the point at which we found we could no longer compete in the manufacture of Sanitary Enamel Plumbing Fixtures with the only other plants (two in number) turning out this kind of material and located in Ontario. The operation had been marginal but had been built up as a means of keeping some employment in the Eastern area. The increases in transportation costs both outgoing and incoming made it impossible to continue so the jobs of 125 to 130 men that had been there for many, many years went with the industry. Also the Railway lost the handling of perhaps 150 to 300 carloads of goods per year since by then a good part of what we had moved in carloads would be handled by the two plants in Ontario by truck.

The point marked "Y" on the Freight Rate line marks the point where we found it advis-

able to sell a Wheel Foundry we had, for the same general reason given above. The purchaser, we understand, had to phase it out before long and so another 40 to 50 men had to seek other employment and the Railway lost the handling of many, many carloads of goods.

As you follow the Freight Rate line "B" upward through the increases you can see clearly the effect they had on goods going out of the Atlantic area, line "A", until you will see in 1967 it is, on the same basis as previous years, about 30 per cent. The increase in the trucking industry, and the establishing of Truck competitive rates in the Central areas particularly, against which the M.F.R.A. as set up did not protect us, contributed very materially to this decrease in proportion of shipments going outside the Eastern area.

The above and the lines on the graph speak for themselves and serve to show you clearly how important economical transportation is to this area.

We feel the undertaking to give this area access to the broad Canadian market which was one of the corner stones of Confederation is a matter of *National Policy* but that all through the years, the Governments of the day, have tried to fulfill that undertaking by manipulation of the National Transportation Policy. It seems to be time the two were separated and each set up to do its part toward what is needed.

The Duncan Commission confirmed the understanding and the obligation of the Federal Government respecting transportation in the Atlantic Provinces, so that work is all behind us and established. The *Intent* of the M.F.R.A. is what we need but the application does not fit the present. Under no circumstances would the thought of cancelling the M.F.R.A. be tolerated but it needs to be amended so as to carry out its *intent*. One necessary amendment must be to extend it to all modes of transportation. In 1927 there was only one.

Lest there be any thought that we are thinking only of outgoing shipments may we say that the incoming shipments, of which there must be approximately the same tonnage as the outgoing, were all subject to the increases shown by line "B" on the graph and therefore contribute their share to the overall problem.

We have not shown any reference to the drastic increase in L.C.L. costs brought in



September 5, 1967. One cannot make any comments on it until it is stabilized. As yet a good many of the prior L.C.L. rates are temporarily in effect. If and when they are withdrawn, unless replaced by something in tune with the problems and the obligations, the new tariff 100 would only further accelerate the trend shown so clearly by line "A" on the graph.

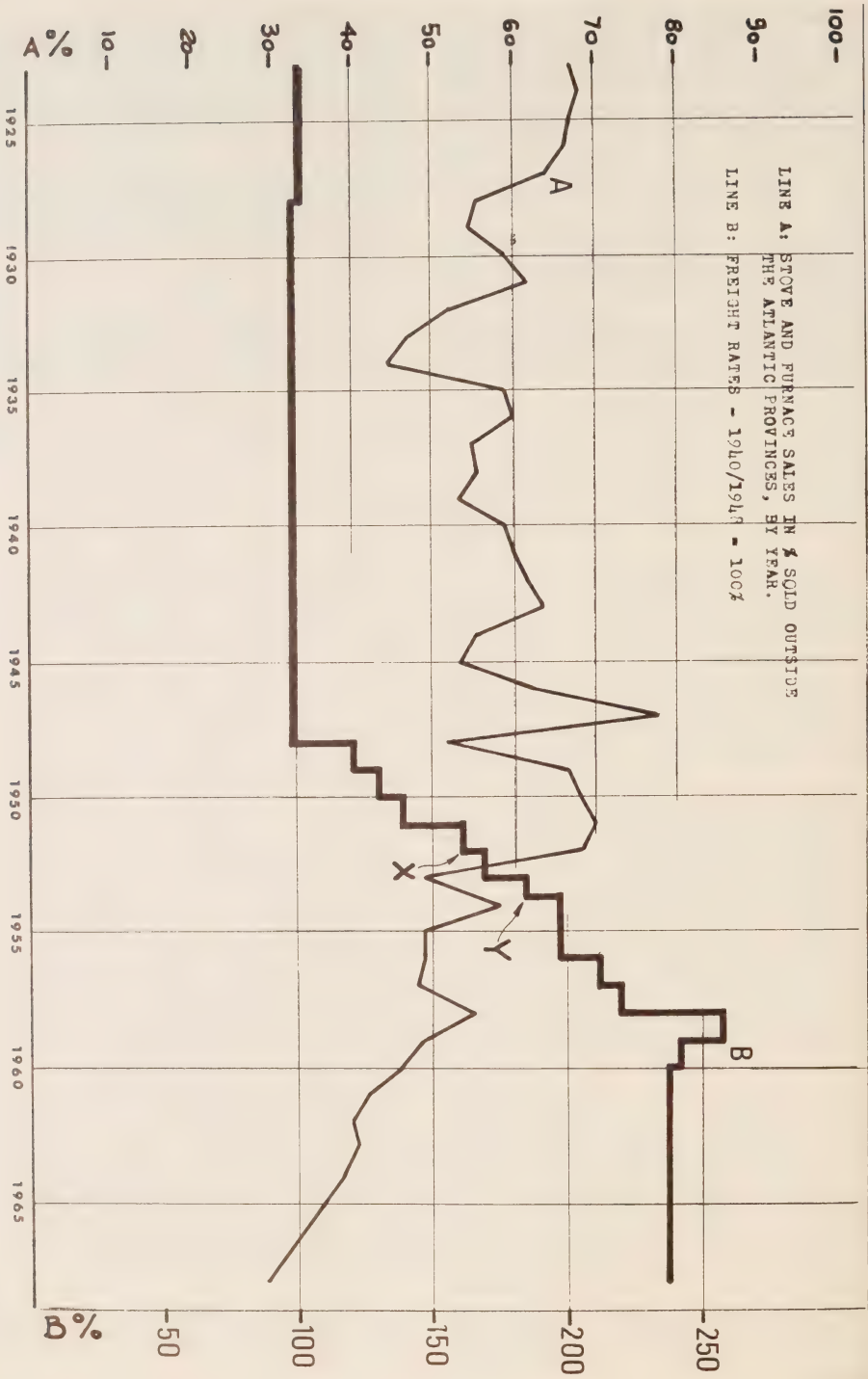
We thank you for the opportunity to submit these thoughts to you. We hope they may in a small way help you understand the situation a little better.

We are glad the Provincial Government have undertaken to work out a positive sub-

mission to be put forward as soon as ready outlining what we in this area feel needs to be done to put us in a position where we can work toward solving our problems and yours. We will be pleased to help all we can in that work.

We are sure you can see from the graphs attached here, that as things are going the prospects for the years to come are all too evident unless we have access to the larger market.

Yours very truly,  
R. B. Fullerton—General Manager  
F. R. Rand—Transportation Officer



## APPENDIX A-77

## BRIEF

on behalf of

THE ENTERPRISE FOUNDRY COMPANY LIMITED  
SACKVILLE, NEW BRUNSWICK

Mr. Chairman and Members:

This Company is a privately owned one which has been manufacturing Cooking and Heating Equipment since 1872 at Sackville, N.B. and, through a great deal of hard work, has shown growth and development over the years.

The number of employees average 350 to 375 and the value of the products sold amounts to several millions of dollars.

Sackville has a population of about 3,000. The Community has, to a large extent, grown up and developed based on two Stove Plants in the Town. On the basis of four to a family, this Company alone has 1,400 people at least depending directly on it for their living. This is a large percentage of the Town and surrounding community. These employees support many merchants and others.

The market we cater to is Canada. In order to do this, it has been necessary to establish and maintain warehouses in St. John's, Dartmouth, Montreal, Toronto, London, Winnipeg, Calgary, Edmonton and Vancouver. The operation of these warehouses is costly but essential to give the service that will enable us to obtain a share of the business.

Goods are shipped to the warehouses in carload lots and distributed to dealers in the respective territories. For the Atlantic Provinces and Eastern Quebec our product is distributed direct from Sackville by L.C.L. Freight.

The largest part of our business is West of the Atlantic Provinces and it is there where we must look for growth for the continuance of our Company. Increased volume is essential to keep pace with wage and material increases.

Transportation is a vital factor in our business, especially where we are selling the larg-

est part of our production in the very highly competitive markets of Central and Western Canada.

We have expended capital and built up our Organization to reach out into the markets beyond the Atlantic Provinces, and we therefore depend on these markets. It is there that the growth in population is taking place, and it is there that we must maintain and increase the outlet for our production if we are to preserve our business which means employment to so many people and a lifetime of effort and accumulated investment.

It is to be regretted that the time, between the date we were notified that your Committee was going to have hearings here and the dates fixed for the hearings, and for briefs to be submitted, was so short that it has not been possible to carry out the amount of research we would like. In view of this we have just had to do the best possible in the time available.

The source of this whole difficult situation seems to be, in our opinion, that the National Policy and the National Transportation Policy are operating in opposite directions instead of the Transportation Policy working in with the National Policy.

Our understanding is that one point in the National Policy is "to afford to Maritime Merchants, Traders, and Manufacturers the larger markets of the whole Canadian people instead of the restricted market of the Maritimes themselves". (Reference: Preamble to original statute Maritime Freight Rates Act).

The National Transportation Policy seems to be for the Railways to go ahead with no restrictions as to rates anywhere.

Competition may be an effective means of controlling rates for Central Canadian Shippers, but because of greater distances for Maritime Shippers in reaching the Central Canadian Markets, and because the highway



transport serving the Maritimes is now as well developed, competition may fall considerably short of providing ample protection for Maritime Shippers.

Tariff 100, effective September 5th, 1967, means that the cost of moving our product to our customers is tremendously increased and has also increased the cost of our raw materials and supplies. This all adds up to greater sales resistance with probable loss of business and of so increasing our costs to make us non-competitive. This would mean the end of our business, as has been the case with other Maritime Stove Plants.

On checking twenty-four destinations in the Atlantic Provinces, to which shipments are made from Sackville, for a shipment of two electric ranges, which is a normal local shipment, we find that the average increase is 123 per cent for the same service as before.

See Statement "A" attached for details.

To seventeen destinations in Eastern Quebec on a shipment of two electric ranges the average increase is 76 per cent. See Statement "B" attached.

In addition to these great increases in rates there is a lot of extra expense involved in the shipping room to figure up how to bill out a shipment. Is the shipment to be pounds weight or dimension weight based on 10 pounds per cubic foot? The measuring of large quantities of tailor-made packages for cubic feet means two multiplications and one division calculation. On shipments of less than 300 pounds, one must add length to girth to see if the total is more than 92 inches and will take an extra charge of 20 cents. Then the extra charge of 20 cents for each piece in a shipment more than one piece. On thousands of shipments these items mean a lot of extra clerical help. Surely there is a more simple way of handling this so as to relieve shippers of so much additional expense.

Incoming L.C.L. shipments of raw materials and supplies from points West of the Maritimes is an extremely serious item for us costwise. There are many hundreds of these shipments and they come in freight collect.

Some 90 per cent of our materials come in from these points. Largely from Ontario, some from Quebec and the U.S.A.

On our bulk materials coming in by carload we pay heavy transportation charges as compared to competitors in the Toronto area. Such items are Pig Iron, Enamel Frit, Special Sands, Coke, Water Heater Tanks, Steel

Sheets, etc. On steel sheets our freight is \$16.80 per ton more than to Toronto. This item alone in 1967 cost us \$43,680.00 more than the Toronto manufacturers. This figure is greatly increased when adding on other bulk carload materials and L.C.L. incoming shipments.

A survey for a period of time on incoming L.C.L. shipments shows that the increases under Tariff 100 are, as close as can be figured, average 70 per cent more than under the Class Rate. Expressing this in cost per ton shows that we pay out about \$88.80 per ton (on F.O.B. Toronto basis) more than our competitors in the Toronto area. Some items come from points outside Toronto so the Toronto manufacturer would pay some freight. However, this would be small and the extra we pay over the Toronto competitor is at least \$80.00 per ton. This is too heavy a load for our business to stand. It means increased cost of our products and destroys our competitive position. This would mean loss of business which would be disastrous to our Company. This increase on incoming L.C.L. shipments amounts to \$44,400.00 under Tariff 100 on the basis of the volume done in 1967 on the \$88.80 basis or \$40,000.00 on the \$80.00 basis.

The above rates are tabulated as follows, showing increase from Class and Commodity Rates to Rates in Tariff 100:

1. On L.C.L. shipments from Sackville to points in Atlantic Provinces, average increase — 123 per cent
2. On L.C.L. shipments from Sackville to points in Eastern Quebec, average increase — 76 per cent
3. On L.C.L. shipments of raw materials from points in Central Canada to Sackville, average increase — 70 per cent
4. Sackville Company pays on L.C.L. raw material shipments as compared to Central Canada competitor minimum extra of — \$80.00 per ton
5. This amounted in 1967 to approximately — \$40,000.00
6. On C.L. Steel Sheets, Hamilton to Sackville as compared Hamilton to Toronto, Sackville pays an extra of — \$16.80 per ton

For a yearly total of this Item 6 for 1967 — \$43,680.00

For details of above see Statements "A", "B" and "C" attached.

7. Many other carload shipments amount to many thousands of dollars.

8. Do you believe that it is economical possible for a Company that has to pay much more than its competitors, for materials, to compete with those competitors, whose materials cost them less?

We found these costs so high that we have instructed our suppliers who ship L.C.L. to bill out their shipments to us under Class Rates.

Also all our L.C.L. outgoing is being sent at Class or Commodity Rates. Not the new non-carload rates (Tariff 100).

It is true that in both the above cases, transportation costs are higher now than before September 5th, 1967, due to the elimination of pick-up and delivery service and the cancellation on that date of L.C.L. competitive rates. Furthermore the L.C.L. Class and Commodity Rates were increased as recently as May 4th, 1967, by varying amounts ranging from 6 to 12 per cent. But nonetheless Class Rates are still not as damaging as the new non-carload rates in Tariff 100.

For many years the Appliance Industry has been extremely competitive pricewise and this continues. To show what the price situation is, we refer you to D.B.S. figures, November 1967, Catalogue No. 62-002, page 10. In 1956 Electric Range wholesale price Index 100, is now 84.5 This means that now Electric Range prices are reduced 15.5 per cent from 1956. There are extremely few items listed in this catalogue which do not show, in the same period, substantial price increases.

Another of our products is Oil Furnaces on page 8. These show a reduction 4.4 per cent.

On the other hand our raw materials show a substantial increase in price; as an example, Cold Rolled Steel Sheets up 17.4 per cent. This is our largest single commodity.

Most of our competitors, and these are Canadian Plants of large U.S. Corporations, are located in what may be referred to as the Toronto area. Centrally located in the big wealthy market with a minimum of distribution expense. Also they have their raw materials and supplies almost at their doors.

Compare this situation with a New Brunswick competitor who has a long rail haul in and a long rail haul out, as additional expense. There are no compensating advantages in a New Brunswick location.

All the above conditions worsen considerably our competitive position with these Central Canada Manufacturers who are more strategically located.

Some years ago there were twelve Stove Plants in the Maritime Provinces. Now there are two. The others could not keep up the pace of competition.

The continued existence of our industries is dependent on their *relative* competitive position with similar manufacturers in those more densely populated areas in Quebec and Ontario. Consideration of the matter should be on a comparative basis.

It seems to us that it is very much in the interest of the Railways to do everything in their power to encourage and develop manufacturing industries in the Atlantic Provinces, and for the Government to see that this is done. From such businesses the Railway get a much greater proportional amount of traffic than from a concern of the same size in the Central Provinces. In other words, in a Maritime industry there is the long rail haul in on raw material and long outward haul on the finished product, plus the local haul. Furthermore, we feel very safe in stating that the railways obtain a much larger percentage of our traffic than they do of competing industries in Central Canada which generate short haul traffic, particularly susceptible to truck carriage. Our own traffic also brings additional rail freight which one might call secondary traffic, that is, food, supplies, etc., for the communities supported by our industry, and these we believe provide a considerable tonnage.

The Railways of Canada were built, in part, with the idea of uniting all sections of Canada into an economic group to make Canada strong. All parts of Canada must be prosperous if Canada as a whole is going to be prosperous.

Secondary Industry is badly needed in the Atlantic Provinces to round out our economy and to provide that great stabilizing influence, the weekly pay envelope, that maintains communities in prosperity. To accomplish this end not only to the present industries here need the opportunity but more industry needs to be developed, but for this development there must be conditions suitable to the prospective and more *importantly* the *present* manufacturer so that he will be in a position to market his production economically and competitively in the large and broad markets of Canada. It seems, due to the way in which



freight rates have been increased, that the effect has been the reverse of the original idea of unity, namely to have resulted in a tearing apart of Canada and a great centralization of industry in Ontario and Quebec to the detriment of other Provinces. We believe that this condition can only be overcome by removing the uneconomic and what appears unjust situation which now exists and which throughout the last many years has steadily worsened the situation of the producers in the Atlantic Provinces.

It seems to us that the National Transportation Policy should have been made up of the necessary number of area policies which would give to each economic and geographic area the chance to grow and prosper. Here again is the Government responsibility. The Maritime Freight Rates Act resulting from a Royal Commission, definitely established the fact that Maritime Transportation is a national problem. Improvements were made in the situation by Maritime Freight Rates Act but, unfortunately, the movement of essential raw materials and supplies from West to East was omitted, possibly due to the fact that at that time, 40 years ago, the situation did not apply nearly as much as it does today. There are sound basic qualities to the M.F.R. Act but they need a realigning and expanding to fit into today's requirements.

To point up that this matter of disturbed rate relationship is a very serious one, we bring to the Committee's attention that the freight rate increases have already contributed materially to the closing and dismantling of an old established Stove Plant in Moncton two years ago. Once conditions force the closing and dismantling of a Plant, it is then too late for relief. A repetition of this we want to avoid.

It was stated on February 7th at the Confederation Conference that there must be a bigger than ever effort to raise economic standards in the Atlantic Provinces as there are such widespread disparities from one region of Canada to another. An instance of this was given as follows:

1. Gross profits per capita 1966 (dollars)  
New Brunswick 135; Ontario 322; an increase of 135 per cent over New Brunswick.

2. Gross product per capita 1966 (dollars)  
New Brunswick 1876; Ontario 3292; an increase of 75.4 per cent Ontario over New Brunswick.

From this it can be seen that while the gross product per capita was 75.4 per cent more in Ontario, the gross profits per capita were 135 per cent more. Surely this points up dramatically the need for Atlantic Province Industries to have greater access to the full markets of Canada. In this we are prevented at the present time by excessive costs in transportation.

For the Atlantic Provinces there should be a massive attack on economic disparities. A situation which is considered a major threat to Canada's unity. Such a program was recommended by the Premiers of Ontario and of the Atlantic Provinces.

The following points stand out very clearly from this Brief:

1. Transportation assistance is required for the movement of inbound raw materials and outbound finished product to enable an industry such as ours to compete in the larger market of Canada. The exact amount of assistance or the manner in which it should be provided is beyond the scope of this submission, but it is our opinion that it must be sufficient to place a Maritime Manufacturer on a roughly equal basis, ratewise, with the Manufacturer situated in Montreal.

2. That the Railway not be permitted now or in the future to put into effect such radical alterations in their rate structure as is set forth in the new non-carload rates (Tariff 100). They should first consult fully with shippers and receivers to explore the effect of such changes upon their businesses and endeavour to come to a mutually satisfactory solution. Also to allow adequate lapse of time between such consultations and the effective date of the changes in rate and rule to permit shippers and receivers to endeavour to make suitable adjustments in their shipping practices. Also rates should be approved by the Canadian Transport Commission.

3. That the Railway be required to reflect not more than a fair and reasonable proportion of railway increase costs in their rates to any particular shipper or region, so that transportation rates on our products be such that we will be able to deliver them to Ontario and Quebec markets at a cost roughly equal to transport costs from the producing point nearer to the market than the Maritime Manufacturer.



4. That in future increases in rate from the Maritimes to Western Canada be not more than increases for like commodities from Central to Western Canada, and that such increases be in cents per 100 pounds rather than percentage so as not to disrupt the competitive relationship between Central Canada and Maritime shippers in the Western market.

As each day passes, we believe there is a steadily growing awareness by the people of all sections of Canada of the acute problems of the Atlantic Provinces, and with it a strong

desire to do something about it before it is too late. More and more urgent are the problems becoming. Take for example the coal and steel situation. This has now assumed national proportions. Only far reaching and drastic action will adequately deal with it. And so must bold far-seeing steps now be taken to maintain and develop other industries we have in Atlantic Canada.

Respectfully submitted,  
THE ENTERPRISE FOUNDRY  
COMPANY LIMITED

STATEMENT "A"

SHIPMENT OF 2 ELECTRIC RANGES FROM SACKVILLE, N.B.

To:	NEW RATES—	
	Tariff 100	
	At Class Rate 440 lbs	480 lbs + .25 for value 440 lbs = 480 lbs at cubic wgt.
Truro .....	2.90	6.68
New Glasgow .....	3.39	7.51
Sydney .....	4.70	10.33
Halifax .....	3.70	7.51
Yarmouth .....	5.36	11.10
Liverpool .....	4.40	9.56
Lunenburg .....	4.18	9.56
Moncton .....	2.45	6.68
Saint John .....	3.39	7.51
Fredericton .....	3.78	8.71
Woodstock .....	4.31	9.56
Edmundston .....	4.58	10.33
Campbellton .....	4.32	9.56
Bathurst .....	3.78	8.71
Newcastle .....	3.39	7.51
Summerside .....	2.90	6.68
Charlottetown .....	3.26	6.68
Corner Brook .....	6.02	13.49
Stephenville .....	5.90	12.97
Bonavista .....	7.83	17.24
Marystown .....	6.56	15.13
Gander .....	6.86	15.66
Grand Bank .....	6.56	14.55
St. John's .....	8.00	17.82
	<hr/> 112.52	<hr/> 251.04
		123% increase

STATEMENT "B"

SHIPMENT OF 2 ELECTRIC RANGES FROM SACKVILLE, N.B.

To:	NEW RATES—	
	Tariff 100	
	At Class Rates	480 lbs + .25 for value 440 lbs = 480 lbs at cubic wgt.
	440 lbs	
Gaspe .....	8.44	12.44
Rimouski .....	7.56	11.86
Sherbrooke .....	7.39	15.61
La Sarre .....	13.86	19.93
Quebec .....	6.82	15.13
La Tuque .....	7.70	15.61
Grand Mere .....	7.70	15.61
Drummondville .....	7.70	15.61
Amos .....	13.20	19.93
St. Hyacinthe .....	7.70	15.61
Montmagny .....	8.44	12.34
Chicoutimi .....	9.55	16.57
Metabetchouan .....	9.20	16.57
Mount Laurier .....	8.80	18.49
Amqui .....	7.00	10.33
Riviere du Loup .....	8.18	16.86
Trois Pistoles .....	8.60	11.86
	147.24	260.36
		76% increase

STATEMENT "C"

The following figures are actual incoming raw materials L. C. L.		= INCREASE 70.8% Tariff 100 over Class Rates 81½ Tons for 2 months = 489 Tons per year
1.	CLASS RATES	TARIFF 100 Nov., Dec., Jan. —
March 1/67 to April 30/67	— 9 weeks	\$88.80 per Ton
163,000 lbs.	for \$4,246.56	CLASS RATES March, April —
	= \$2.60 per 100 lbs	\$52.00 per Ton
	= \$52.00 per Ton	\$36.80 = INCREASE 70.8%
2.	NEW TARIFF 100	We pay more than our competitors in Toronto area a minimum of \$80.00 per ton on incoming raw materials from points West of the Maritimes.
(New Non-Carload Rates)		
Nov. 21/67 to January 26/68	— 12 weeks	On 500 tons per year we pay more by about \$40,000.00
118,226 lbs	for \$5,248.65	
	= \$4.44 per 100 lbs	
	= \$88.80 per Ton	



## APPENDIX A-78

Submitted by

## THE MONCTON TRANSCRIPT

## ECONOMIC DISPARITY MUST BE ENDED

At the constitutional conference in Ottawa the premiers of the Atlantic provinces have made it clear that they believe that there is a need in Canada for equality of economic standards. They have accepted the call for extension of linguistic and cultural rights but have, in reply, outspokenly told of the desperate need for a massive attack on economic disparity, a situation they consider a major threat to Canada's unity.

The premiers are correct in taking this stand. Premier Robarts of Ontario, a man who is showing himself to be one of Canada's most fair-minded and progressive leaders, had at the Confederation of Tomorrow Conference held in Toronto, outlined a concept calling for the investment of a billion dollars for the have-not provinces. While this sum is not to be sneezed at, Premier G. I. Smith of Nova Scotia was not incorrect in pointing out that really the sum isn't as impressive as it sounds, especially in light of the \$200,000,000 that Nova Scotia alone has invested in the past few years to foster industrial growth.

The Atlantic provinces—or in this context more correctly the three Maritime provinces—have made tremendous sacrifices in the name of Canadian unity. The three Maritime provinces were quite bustling concerns 100 years ago. The natural market was to the south in the United States. Many communities showed signs of developing into quite substantial industrial cities. Amherst, for example, was known as "busy Amherst." Moncton was a fast growing town, with shipbuilding in the area together with other small but growing industries.

Confederation changed all that. The tariff walls that were thrown up cut the region off from its natural markets in the U.S. and changed the flow of trade from north-south to east-west. The tariffs protected the fledgling

industries of central Canada and behind them those industries flourished—to the detriment of the Maritimes.

The price the Maritimes have paid to be Canadian is clear enough. Today it can be seen as approximately a 30-per-cent disparity in economic standards of the people here.

Clearly, after 100 years of loyalty, this area deserves to be given the help it needs to close that gaping economic chasm. This does not mean handouts. It does mean sound assistance that will enable the proud and capable Maritimer to lift himself up.

One of the avenues for Atlantic area progress which would carry the region a long way along the path to greater prosperity would be for a completely new deal for transportation. Many regional industries cannot survive solely on the regional market, but must sell their goods in the central and other areas of Canada. But transportation costs too often are an insurmountable stumbling block. A square deal in transportation for Atlantic area products would give businessmen here the access to markets elsewhere in Canada that they so desperately need. A square deal in transportation would spur the flow into this area of industry.

Premier Joey Smallwood of Newfoundland, in his inimitable manner, put the whole issue in a nutshell when he argued that a baby born as a Canadian in Newfoundland or Labrador had the same right to decent education and housing and food and health care and everything else, including opportunity in life, as the baby born in the wealthy suburbs of Montreal or Toronto. That applies equally to the baby born in Cape Breton or Charlotte-town or the North Shore of New Brunswick. And it also applies equally to the parents.

Respectfully submitted,

THE MONCTON TRANSCRIPT

J. K. Grainger, Publisher.

## APPENDIX A-79

## SUBMISSION

by

## THE MARITIME PROVINCES BOARD OF TRADE

February, 1968

Mr. Chairman, Gentlemen:

The Maritime Provinces Board of Trade is the federation of some 115 Boards of Trade and Chambers of Commerce located in communities throughout the three Maritimes Provinces. This submission reflects the thinking of those organizations relative to area transportation problems.

## THE PROBLEM

1. The Maritime Provinces, residents' income is but two-thirds that of the prosperous areas of Canada and for many years Maritimers have lived in an economic ghetto.

2. But this wasn't always so.

The logical way for the Maritime Provinces to trade is north and south and history has shown that when the area was able to trade this way, it enjoyed economic prosperity.

3. Because of tariff walls, it is now not possible for the Maritimes to trade north and south. Since the tariff structure benefits the region very little, and forces the area residents to purchase higher priced Central Canadian manufactured products, rather than less expensive United States manufactured products, it has been said, with justification, that the Maritime Provinces resident is thus subsidizing the Central Canadian manufacturer.

4. It might be thought that the Maritime Provinces would have a transportation advantage in export markets. But this is not so because of a lack of sufficient sailings to world markets from Atlantic ports throughout the year, and more importantly, because the ocean rates are almost without exception identical to and from the Atlantic ports as to and from the St. Lawrence ports.

5. Primary industry in the area will not alter the income disparity. Secondary industry is needed. But the market itself is not suffi-

ciently large to support secondary industry. Economic access to the large Central Canadian market is necessary to the establishment and maintenance of secondary industry. Unless this is enabled, the Maritimes will remain forever in the economic ghetto. does it now.

## THE HISTORY

6. At the time of Confederation, the construction of the Intercolonial Railway was to provide the Maritimes with access to the Central Canadian market. Without this promise it is doubtful if the Maritime Provinces would have become a part of the Confederation and section 145 of the British North America Act confirms that the promise was indeed a tenet of Confederation.

7. The Maritimer believes that access to the Central Canadian market is every bit as much a right of Confederation as are the rights sought by Quebec in connection with a bilingual and bicultural Canada.

8. The Maritime Provinces Board of Trade believes that, implicit in this agreement, was the economic as well as physical access to the Central Canadian market. The railway no longer provides economic access to these so-essential markets.

9. The railway was built but economic access to the Central Canadian market via it was continuously eroded by a series of freight rate increases which, in effect, pushed the Maritime Provinces further and further out into the Atlantic Ocean. While these freight rate increases were also permitted in the central region, they were for the most part not applied because of competitive factors. Because of the sparsity of our population, an effective alternative to railway transport did not exist in the Maritimes at that time, nor does it now.

10. Finally, the effect of these freight rate increases plus the depressed condition of the area brought about a "Restore Maritime Rights" movement in the mid twenties and

the Duncan Commission was appointed in 1926. This commission confirmed that the purpose of the Intercolonial Railroad had indeed been to provide economic access to the Central Canadian market and that "to the extent that commercial considerations were subordinate to national, imperial and strategic considerations, the cost would be borne by the Dominion and not by the traffic that might pass over the line."

11. The findings of the Duncan Commission resulted in the enactment, in 1927, of the Maritimes Freight Rates Act. But again, erosion, in the form of horizontal freight rate increases, of the benefits obtained by the Maritime Freight Rates Act has no longer made it the instrument by which economic access to the Central Canadian market can be obtained—if indeed it were ever really such an instrument.

12. And there is real concern, indeed alarm, that the most recent LCL freight rate increases will not only further inhibit growth but may actually bring about the demise of some already established vitally needed industries. In spite of unfavourable freight rates, these industries have been able to compete on the fringe of the Central Canadian Market but the most recent increases may well now make this impossible. Again we face the problem that the Maritimes market alone isn't generally large enough to support most secondary industry.

### CONCLUSIONS

13. If we are to ever get out of our economic ghetto we must have economic transport for raw material from sources outside the region and be able to competitively reach the Central Canadian market with our manufactured products. Every other scheme designed to close the economic disparity that exists between the Maritimes and the more prosperous parts of Canada has so far failed.

14. This means assistance with our transportation costs.

15. What is needed is a public policy to provide financial assistance in transportation related to the considerations at the time of Confederation, and at the time of the enactment of the Maritime Freight Rates Act in 1927, but in keeping with present economic conditions.

16. There is precedent for area assistance in connection with transportation costs. Presently in Canada

(a) the St. Lawrence Seaway is being operated with tolls that are less than compensatory,

(b) Export rates on grain are being maintained at the 1897 level,

(c) Ice breakers, operated at government expense, are being used to keep the St. Lawrence open for shipping during the winter months.

17. In the recent Constitutional Conference, the Atlantic premiers placed great emphasis on economic disparity and its relationship to Confederation. The Maritime Provinces Board of Trade believes a key to an improvement is the transportation policy it advocates in this presentation.

### 18. CONCLUSION SUMMARY:

(a) The Maritime Provinces Board of Trade submits that the claim of Maritime shippers and consumers to economic access to the Central Canadian market is every bit as much a right under Confederation as Quebec's claim to a bilingual and bicultural society.

(b) The Maritime Provinces Board of Trade further submits that unless this economic access to the Central Canadian market is enabled, all other attempts to stimulate the Maritime economy may well fail and Maritimers could well be forced to live in an economic ghetto for all time.

(c) By the same token, the Maritime Provinces Board of Trade believes that the provision of economic access to the Central Canadian market could well be the key to the solution of the Maritimes economic problems and that the form of assistance to enable this may not be necessary for all time. If economic access to Central Canadian markets is provided, the region will grow and perhaps ultimately reach a size when it will be a self-contained market. As this point transportation assistance could well be abandoned.

### RECOMMENDATIONS

19. The Maritime Provinces Board of Trade recommends:

(a) That the government recognize the right of Maritime shippers and consumers to economic access to the Central Canadian market as a right of Confederation and as a matter of National Public Policy

(b) That the Parliament of Canada, after recognizing this and as a temporary measure, immediately amend the Maritimes Freight Rates Act so that its effect



tiveness is restored to the level of its effectiveness in 1927 and the subsidies necessary to achieve this be paid out of general revenue and to all modes of transport.

(c) That the government then await the report of the so-called "Interprovincial Task Force" which has been set up to study and specifically establish what

"economic access" actually means in terms of tariffs, freight rates, etc., etc., and that the report of this "Task Force" be the basis for a revised Maritime Freight Rates Act.

Respectfully submitted,  
B. W. Isner, President,  
Maritime Provinces Board of Trade.

## APPENDIX A-80

## BRIEF

by

## THE T. EATON CO. LIMITED

*The Atlantic Provinces Transportation Study*

As a Canada wide company operating a number of retail stores and a Catalogue House in the Atlantic Provinces we are very much aware of the cost of transportation on the merchandise we purchase and on the merchandise we ship from our facilities to our out-of-town customers as our selling price includes free home delivery.

Transportation costs are a vital factor in establishing the laid down cost and consequently the retail selling price of merchandise.

The fact that we prepay transportation charges on all merchandise to our customers in the Atlantic Provinces and that in some areas the catalogue is the only source of supply of many consumer items required, our Catalogue retail prices must reflect both incoming and outgoing transportation costs. Any significant increase in transportation rates must of necessity be reflected in our retail selling price of the merchandise.

Shippers and receivers of merchandise, and especially our Company, are constantly exploring and examining every method and means to keep our transportation charges to a minimum so that the laid down cost and delivered price to our customers is the lowest possible.

However, since September 5th, 1967 when the new Express Traffic Association Tariff 100 became effective, there has been a substantial increase in transportation charges paid by our Company on merchandise moving into the Atlantic Provinces from suppliers and on distribution within the Atlantic Provinces to our customers.

To illustrate this point, the following examples have been taken on actual shipments to our Company.

From Toronto to Halifax—Dinette Suite 135 pounds 24 cu. ft. 3 pcs.

Former transportation charge \$4.48  
Present transportation charge \$7.30  
Increase \$2.82 equals 63 per cent

From Toronto to Campbellton—same commodity

Former transportation charge \$4.33  
Present transportation charge \$6.35  
Increase \$2.02 equals 46.7 per cent

From Toronto to Halifax—Heater 65 pounds 11 cu. ft.

Former transportation charge \$3.32  
Present transportation charge \$4.30  
Increase 98¢ equals 29.5 per cent

From Hespeler, Ontario to Halifax—Furnace 190 pounds 17 cu. ft.

Former transportation charge \$5.70  
Present transportation charge \$9.10  
Increase \$3.40 equals 59.7 per cent

From Montreal to Halifax—Hide-a Bed 245 pounds 43.3 cu. ft.

Former transportation charge \$12.27  
Present transportation charge \$16.02  
Increase \$3.75 equals 30.6 per cent

From Montreal to Campbelltown—Chair 60 pounds 20.4 cu. ft.

Former transportation charge \$2.40  
Present transportation charge \$4.00  
Increase \$1.60 equals 66.7 per cent.

From Moncton to Halifax—Heater 63 pounds 9.17 cu. ft.

Former transportation charge \$1.80  
Present transportation charge \$3.20  
Increase \$1.40 equals 77.8 per cent.

We have a special tariff for the movement of our catalogue merchandise from our Moncton warehouse to our customers and from our customers back to our Moncton warehouse.

Under this special tariff our transportation charges on this traffic have increased approximately 20 per cent-25 per cent.

The greatest increase has been on small shipments as the following examples illustrate.

From Moncton to Yarmouth—Merchandise pieces 60 pounds

Former transportation charge \$1.80  
Present transportation charge \$3.38  
Increase \$1.58 equals 87 per cent

From Moncton to Sydney—Merchandise 1 piece 80 pounds.

Former transportation charge \$1.80  
Present transportation charge \$3.85  
Increase \$2.05 equals 110.8 per cent

From Moncton to Charlottetown—Merchandise 1 piece 20 pounds

Former transportation charge \$1.80  
Present transportation charge \$2.80  
Increase \$1.00 equals 55.6 per cent

When comparing the percentage of increase in the rates in the Atlantic Provinces with those in the rest of Canada, the Atlantic Provinces increase in rates is significantly higher than in all other areas.

It should be mentioned that there is very little reliable and regular highway transport service in the Atlantic Provinces compared to the rest of Canada, therefore very little com-

petition for the railways, which may have been a significant factor when the new rates for the Atlantic Provinces were being established.

From the reports we have received from our Catalogue Sales Offices in the Atlantic Provinces, we conclude that even with substantially increased rates the general overall service has deteriorated.

We feel that if the present levels of rates for the Atlantic Provinces are not reduced, it will result in an increase in the cost of living for the consumer and could retard the growth of our Company which provides employment and income directly and indirectly to many people in the Atlantic Provinces.

W. R. SPARKS,

THE T. EATON COMPANY LIMITED

Toronto, February 13, 1968.



## APPENDIX A-81

## BRIEF

Submitted by

NOVA SCOTIA FEDERATION OF LABOUR,  
 NEW BRUNSWICK FEDERATION OF LABOUR,  
 PRINCE EDWARD ISLAND FEDERATION OF LABOUR,  
 NEWFOUNDLAND FEDERATION OF LABOUR.

MARCH 1968.

Mr. Chairman and Committee Members:

This submission is presented on behalf of the provincial federations of labour of Nova Scotia, Newfoundland, New Brunswick and Prince Edward Island, bodies comprised of trade union members in all major industries in the Atlantic Provinces.

We are extremely concerned with the relative deterioration of the economic standing of our region vis-à-vis the rest of Canada, and since an adequate transportation system provides the indispensable framework around which all economic growth takes place, we consider the work of your committee to be of utmost importance.

Our views on the need for a comprehensive regional economic policy for the Atlantic region have recently been made known to the Federal Government and it is only within the context of this overall policy that our attitude on matters of transportation can be fairly judged. The recent Memorandum of the Canadian Labour Congress to the Federal Government, which was fully endorsed by our four provincial federations, concluded its discussion of the problem of Atlantic regional development in this way:

"The economic problems of the Atlantic provinces are such that they will yield to nothing short of a massive program of co-ordinated and comprehensively planned regional economic development.

To this end, we suggest that the Federal Government take the initiative by establishing a single agency, or department of government, charged with the sole responsibility of planning, and subsequently implementing comprehensive programs of regional economic development. The urgency of this situation in the Atlantic provinces argues that priority be given to the problems of this region. However, in the final analysis all programs of economic development

should only be promoted in close co-operation with governments and other agencies representing the people directly involved, such as the Cape Breton Development Corporation and the Atlantic Development Board. They must have as their ultimate goal the creation of meaningful employment and income opportunities for the residents of all regions of Canada."

It is our view that attainment of these goals in regional economic development will require a different emphasis to the problem of regional transportation than was contained in the National Transportation Act, the introduction of which provided the machinery for an integrated national transportation system along the competitive lines proposed in 1961 by the Royal Commission on Transportation.

The prime objective of the Royal Commission was to devise a system whereby competing modes of transport would carry traffic according to their natural cost advantage, and, under which, subsidies to individual modes which had previously had the effect of distorting the true competitive picture, were to be eliminated. The concern of the Commission was that, over time, the national transportation policy had come to embrace two largely divergent aims. On the one hand it was viewed as an instrument of national policy and, as such, was to be used without concern for its profitability while, on the other hand, it was seen as a commercial enterprise with the attendant requirement that it be economical and efficient.

The Royal Commission sought to give added emphasis to the competitive element in the transportation policy, suggesting that its use as an instrument in the pursuit of national economic, social or other goals was a separate issue, something to be considered apart and not confused with the national transportation policy per se. thus, the Report stated:

"We recognize that this approach to the problem—that the principal concern of

national transportation policy today should be with ways and means of achieving the most efficient transport system to serve the needs of the economy—may be a departure from the traditional view. Historically, the transportation system in Canada was used so extensively as an instrument for the pursuit of broad national policy objectives that the character of the system as a system tended to become a matter of secondary concern”<sup>\*</sup>

As a basic formula for national transportation policy, this approach was welcomed by union groups. However, the de-emphasis of public policy considerations is a matter of grave concern for the Atlantic provinces. Obviously, it is in the interest of all Canadians that the country should have an efficient, integrated transportation system; but, for quite some time to come, the major consideration in the Atlantic provinces will be that cheap transportation be made available wherever the attainment of regional development goals require it.

It is entirely appropriate for the government to use transportation to subsidize communities and areas of the country which are at an economic disadvantage because of lack of resources, geographical remoteness or any other reason. At the same time, the government must ensure that it does not impair the efficiency of the transportation system by its actions. To achieve this, the government must equalize its subsidies over the various transportation industries so as to maintain their natural cost relationships, and by natural cost relationships we mean those that would exist with no subsidization whatsoever. This is essential, not because discrimination against an individual mode of transportation is unfair, but because it is inefficient.

Thus, where public policy requires the assistance of subsidized transportation this must be provided, with the government shouldering the cost. Such a role was foreseen by the Royal Commission as the following passage indicates:

“There is a danger, however, that an approach to National Transportation Policy which is excessively preoccupied with its financial aspects may tend to overlook the high national objectives which would not otherwise have been attained...It should be quite apparent that as long as the transportation system is required to

perform services which do not reflect commercial incentives, financial assistance from the government will be a necessary concomitant of transportation policy. We would not wish, in other words, to encourage the Canadian public to believe that a country such as ours can expect to obtain the kind of transport facilities, designed to fulfil national policy objectives that transcend commercial considerations, without a continuing outlay of public funds of a considerable order of magnitude.”<sup>\*</sup>

That said, we now wish to emphasize that the regional development of the Atlantic provinces is a priority goal which will undoubtedly require the provision of such unremunerative transport services whose cost must be met by government.

The use of transportation policy as an instrument of economic development was clearly established at the time of Confederation and has a firm precedent in the Atlantic provinces in the Maritime Freight Rates Act of 1927. Since its enactment, this particular piece of legislation has provided the basis of transportation assistance to our region.

The M.F.R.A. provides for a reduction in rail freight rates for traffic moving within or originating within a designated area (generally the Atlantic provinces together with that part of the Province of Quebec lying south of the St. Lawrence and east of Levis). The reduction amounts to 20 per cent of the rate for intra-area and export traffic while west-bound traffic is subsidized to the extent of 20 per cent for that portion of the journey to the western extremity of the designated area and 30 per cent for the balance of the haul.

It is our considered opinion that the M.F.R.A. is now an inadequate tool of support and must be augmented. Both qualitatively and quantitatively, the measure falls short of current requirements. In the first place, it offers only partial assistance and this is still inadequate to allow Atlantic shippers to compete effectively in the markets of Central Canada. In the second place, it is inefficient in that it applies only to the railway industry and, therefore distorts the natural division of freight traffic as between the railways and other modes of transport.

The correction of these two defects must be the prime consideration of your committee. Insofar as the amount of subsidization is

<sup>\*</sup> Report of the Royal Commission on Transportation, 1961, Vol. II, Page 180.

<sup>\*</sup> Report of the Royal Commission on Transportation, 1961, Vol. II, Page 195.



concerned, we feel that, if the Atlantic economy is to grow and prosper, manufacturers, and especially secondary manufacturers, must be able to sell their products in the mass markets of Central Canada at rates which do not place them at a competitive disadvantage towards manufacturers located close to the markets. This means that no additional burden whatsoever must accrue to Atlantic producers as a result of the extreme distances involved in transporting goods. In other words, the extra cost of transportation, dictated by the length of the haul from Atlantic locations to the markets of Quebec and Ontario, must be completely underwritten by the government.

Our position on this question is, therefore, that the freight rate subsidization program should attempt to provide the Atlantic producer with the same rate on his product to Central Canada as the rate available to the central Canadian producer competing in that market. Such a program need not be too cumbersome. As was suggested by the Maritime Transportation Commission, in its brief to the Royal Commission on Transportation, the one per cent Waybill Analysis could be used as a basis for comparing the charges paid by Atlantic area shippers with those paid by their competitors. From these samples it would be possible to determine the commodities which regularly move from the Atlantic provinces to Central Canada, and over a period of, say, a year, the total average freight charge per hundred pounds be established for all such goods shipped. Similarly, comparable average rates could be determined for all such goods shipped from locations outside the Atlantic area to Central Canadian markets. From a comparison of this nature, it would be possible to determine the extent by which rates charged to Atlantic shippers exceed those of their non-Atlantic competitors. Our proposal is that all shipments from the Atlantic region be eligible for a subsidy in this amount.

The qualitative deficiency of the Maritime Freight Rates Act, arising from the fact that it applies only to railway freight, could be substantially reduced by extending all forms of subsidization to the trucking industry. The difficulties involved in subsidizing the different transport industries on a proportionate basis are considerable, not least of the impediments being the lack of accurate knowledge of existing patterns of subsidization undertaken on a haphazard basis by the various levels of government. However, while

identification of the source of existing subsidies, and the problem of determining that pattern of subventions which will preserve the natural cost relationships of the transportation industries may require continuing study, we feel that equal subsidization of the rail and trucking industries is a reasonable first step, one which safeguards the basic competitive principle of the National Transportation Act.

We make these proposals in the belief that they are among the basic requirements for any meaningful transportation program in the Atlantic region. However, there is another issue which, in the context of the comprehensive development program advocated, cannot be regarded separately from the transportation policy itself. We refer to recent changes in the railway freight structure and the subsequent lay-off of some 700 railway employees in the Atlantic area.

Official explanations of this latter development have stressed the effect of seasonal trends in the industry and a general weakening in the economy which has had a widespread effect on railway operations throughout the country. We recognize the influence of these factors but we are also aware that the lay-offs followed hard on the heels of the change in railway freight rates effective September 5, 1967, for less-than-carload freight. Undoubtedly, railway traffic, in general, has been falling off in recent months as witness the fact that carloadings in the Maritime region were 15 per cent lower in September, 1967, than in the corresponding month in 1966. However, by contrast, less-than-carload freight declined by 64 per cent as between the two dates and, almost certainly, the freight rate changes were a major contributing factor.

Indeed, the revision represents the most radical change in freight rates for years and its effect on the Atlantic provinces has certainly been more devastating than in any other Canadian region because of the relatively greater incidence of less-than-carload shipments originating in the Atlantic area. The total effect on employment has been greater than is suggested by the lay-off of 700 regular railway employees. In some locations, an equal number of "temporary" employees, many of whom have been working a full 40 hour week, were laid off, and, so far, there is no indication that this trend is coming to an end.

On the railways, the experimentation has resulted in the near total elimination of



express-freight services. It may be argued that some of this business was lost to road carriers as a result of healthy competition, in which case there has been no net economic loss to the region. However, the fact that less-than-carload rates in Western Canada are lower than those in our region seems to support the contention that the railways are deliberately abandoning this service in the Atlantic provinces. Certainly, there are many instances where trucking companies have been able to increase their rates as a result of the railway action.

The adverse effect on business has been widespread and, if nothing else, the method of introducing the revised structure is a prime example of bad public relations on the part of the railways. Shippers were given only one week's notice of the revision with the result that most were caught with traffic made up and crated for shipment under the old freight regulations. Moreover, tactics used by the railways to encourage shipment by express were quite deplorable. After September 5, shippers using the old class rates were no longer entitled to have their consignments picked up or delivered and, in some cases, traffic was taken by railway truck to within a few hundred yards of the consignee's warehouse at which point it had to be transferred to one of his vehicles.

Taken altogether, the effect of the tariff changes on business and on the labour force have been catastrophic, and, while the financial position of the railways may have been improved the action has been inimical to the much needed development of our region. We are appalled at the cavalier treatment of large numbers of displaced workers and we emphasize that any transportation policy devised by this committee must contain some provision for accommodating workers adversely affected by any of the changes that such a policy might entail. In this respect we would like to remind the Committee of the statement made by the Economic Council of Canada in its "Declaration on Manpower Adjustments to Technological and Other Change":

"...One of the costs of a changing and dynamic economy is that some people can be adversely affected through no fault of their own. No society, enjoying the benefits of advancing technology through rising incomes, can ignore the interest of individuals who become victims of change. To ignore them would not only be an injustice, but would also

deprive Canada of necessary manpower in the achievement of this country's economic and social goals. Nothing is more important to our economic and social progress than ensuring the wise and maximum use of all our manpower resources."

The Economic Council recommended a series of steps to assist in the attainment of this goal and we ask your committee to take cognizance of these.

In addition, we call upon your committee to recommend a complete halt to any further tariff experimentation in the Atlantic region until such time as a clear transportation policy for the area emerges based on the needs of a comprehensive program for regional development. In the meantime, we urge you to recommend that express charges be immediately eligible for subsidization in the same amount as freight under the Maritimes Freight Rate Act.

In conclusion, we stress that we are anxious to see a system in which the railways and other carriers become effective tools in the development of the regional economy, as opposed to the present system which seems to view economic development as a mere residual after arbitrary decisions affecting transportation have already set a restrictive ceiling on the potential level of economic activity. Thus, rather than have a carrier initiate rate increases in a vacuum with a view to serving limited interests and thereby producing the adverse effects noted in the case of the railway freight revision, we would have a program defining a series of social and economic goals within which the transport industries would be expected to operate.

All of which is respectfully submitted on behalf of the following organizations:

Nova Scotia Federation of Labour  
John Lynk  
President

Prince Edward Island Federation  
of Labour  
Everett MacLeod  
President

New Brunswick Federation of Labour  
Paul Lepage  
President

Newfoundland Federation of Labour  
David Janes  
President

## APPENDIX A-82

## SUBMISSION

by

CANADIAN TRUCKING ASSOCIATIONS INC.

in conjunction with

MARITIME MOTOR TRANSPORT ASSOCIATION INC.

and

TRUCKING ASSOCIATION OF QUEBEC INC.

MONCTON, CANADA

## INTRODUCTION

Canadian Trucking Associations Inc. is a national federation of seven provincial or regional Associations of 'for-hire' trucking firms. Membership in the provincial Association now exceeds the 7,000 mark and these members consist of the smallest trucking firms and the largest trucking firms in Canada. Estimated direct employment of the 'for-hire' trucking industry is in excess of 125,000 persons. According to figures of the Dominion Bureau of Statistics in 1964 (the last year for which a figure is available) 'for-hire' trucks accounted for 6 per cent of all truck registration in this country, but produced 73.8 per cent of the total net ton miles.

Membership and affiliation with the Maritime Motor Transport Association Inc. now exceeds 700 firms and it is estimated that trucking firms alone in the Atlantic Provinces employ in excess of 7,500 persons.

SUBMISSION ON MARITIME  
FREIGHT RATES ACT

The Maritime Freight Rates Act of 1927 directed that the tariffs of tolls of "the Eastern lines" of the Canadian National Railways be reduced by 20 per cent below the tolls or rates existing on June 30, 1927, the reduction to apply within the Maritime Provinces and on lines of railway extending from the Maritimes into the Province of Quebec from the southern provincial boundary near Metapedia and near Courchesne to Diamond Junction and Levis. The Act implemented the recommendations of the report of

September 23, 1926, of the Royal Commission on Maritime Claims, under the Chairmanship of Sir Andrew Rae Duncan.

Effective July 1, 1957, the reduction of railway rates on interprovincial freight movements westbound from the Maritime region as far as Diamond Junction and Levis became 30 per cent instead of 20 per cent.

The adverse economic effects of this unilateral, discriminative rate reduction statute in favour of the railways have been felt keenly by the truck operators concerned. The long history of these adverse effects has been documented nationally in the submissions of Canadian Trucking Associations and in the reports of the official inquiries which have been established by the Government of Canada. Recent rate policies of the railways in the Atlantic Provinces, leading to the announcement by the Minister of Transport in the House of Commons on November 9, 1967, that additional subsidy money will be made available to the railways under the Maritime Freight Rates Act have intensified the problem.

We are here today in support of our contention—backed by the reports of the MacPherson Royal Commission on Transportation and the Economist Intelligence Unit which conducted the Atlantic Provinces Transportation Study for the federal Department of Transport and the Atlantic Development Board—that the Maritime Freight Rates Act should be promptly updated and brought into line with modern transportation conditions, recognizing all modes of transport.

Four sections of the Canadian trucking industry are adversely affected by the Maritime Freight Rates Act:

1. The Atlantic Provinces' trucking industry;

2. Interprovincial truck operators who haul freight from the Atlantic Provinces westbound to other parts of Canada;

3. Interprovincial truck operators who haul freight westbound to other parts of Canada from the area of Quebec extending from the southern provincial boundary (near Matapedia and Courchesne) to Diamond Junction and Levis;

4. The section of Quebec's trucking industry which operates in competition with intra-Quebec railway freight service on the "eastern lines"—extending from the southern provincial boundary to Diamond Junction and Levis.

The MacPherson Commission stated:

"Under competitive conditions, the use of a single chosen instrument of transportation, rail or another, to achieve regional or national objectives may seriously distort the allocation of resources, may achieve the desired ends by unduly expensive means, or may prove to be of greater assistance to that chosen mode of transport than to the region or industry the policy is designed to assist. Such measures as the 'bridge subsidy', the Freight Rates Reduction Act and the Maritime Freight Rates Act must be evaluated in the light of these considerations."

Royal Commission on Transportation Report, Volume 1, p. 33

The consequences of preserving the status quo in regard to the Maritime Freight Rates Act were stated by the MacPherson Commission:

"The results of continuing to confine participation under the Act to rail carriers, bears serious consequences both for the allocation of resources in transportation in the Atlantic Provinces and for shippers there."

"The principles stated in Volume I and elaborated throughout Volume II are brought to the test in this instance. It is our conviction that favouring one mode over others will limit the choices open to shippers and keep at least some rates higher than they would be under effective

competition. The effect of the present partiality of treatment is to confine some business to the rails at rates higher than would prevail under conditions of equal treatment."

Royal Commission on Transportation Report, Volume II, p. 214-215

The findings of the MacPherson Commission were confirmed by the Atlantic Provinces Transportation Study carried out by the Economist Intelligence Unit for the federal Department of Transport and the Atlantic Development Board. In its report released earlier this year, the Economist Intelligence Unit Stated:

"The Maritime Freight Rates Act introduces distortion and inefficiency into the transport market in that it gives preferential treatment to one mode of transport competing against other unsubsidized modes of transport. The result is to retard the development of competitive modes of transport and the Act has, to some extent, proved self-defeating."

Atlantic Provinces Transportation Study Report, Volume V, p. vii

The distortion of the competitive relationship of truck and rail, and the manner in which the benefits of MFRA are almost automatically misallocated under the impact of the new competitive forces, is clearly stated in the Atlantic Provinces Transportation Study:

"The level at which a competitive rate is set is therefore decided primarily by the rate quoted by the competitive mode of transport. In these circumstances it is difficult to determine what advantage accrues to shippers as a result of the Maritime Freight Rates Act subsidy. The rate is no longer the 1927 rate less 20 percent plus increases authorized since 1927. The shipper in these circumstances obtains a freight rate lower than the prevailing class or commodity rates as a result of competition and the rate which the railways quote would have to be quoted by them in order to obtain the traffic, irrespective of whether the subsidy existed or not. If the railways do not quote a lower rate the shipper will ship at the lower rate quoted by the competitive mode of transport. The Maritime Freight Rates Act may, in some cases, allow the railways to quote a competitive rate when an unsubsidized



rate would be too low to justify trying to keep the traffic. When this happens it is not the shipper who is the beneficiary of the Maritime Freight Rates subsidy—the shipper will obtain a lower rate anyway from the competitive mode of transport. In these circumstances it is the railways who are the beneficiaries of the subsidy as it enables them to quote what would otherwise be an uneconomic rate to keep the traffic on the railways. This was not one of the objectives of the Act.”

Atlantic Provinces Transportation Study Report, Volume V, p. 28

The competitive advantages of trucking, under the right circumstances, are demonstrated in Table 8 taken from the Atlantic Provinces Transportation Study and reproduced as Appendix ‘A’ to this brief. The figures reproduced in the table show clearly how rail rates tend to vary according to the intensity of truck competition. The Table also shows that the Maritime Freight Rates Act is of little benefit in maintaining the relationship between the Maritime and non-Maritime shipper, which existed at the time the Act was passed. This is due almost entirely to the ability of the trucking industry in Upper Canada to compete effectively with the railways. Clearly, competition between various modes of transport is the best guarantee which shippers can have of competitive rates. The trucking industry in Eastern Canada can only compete effectively with other modes of transport when the industry receives equal treatment.

Discussing the findings of the MacPherson Commission in regard to the competitive effects of MFRA on modes of transport competing with the railways—modes of transport whose customers are not eligible for assistance under MFRA—the Atlantic Provinces Transportation Study states:

“The Commission’s findings that the Act tends to inhibit competition have been borne out by this research study. In spite of this, competition has been able to develop in those areas where conditions are most suitable. It is in the more marginal areas where the density of freight movement is relatively slight that the protection afforded to the railways by such policies as the Maritime Freight Rates Act and the Freight Rates Reduction policy have been most effective in

stifling the development of adequate alternative modes of transport.”

Atlantic Provinces Transportation Study Report, Volume V, p. 64

In May 1964, the Eastern Quebec Planning Bureau Inc. began comprehensive studies of the economic, industrial and sociological aspects of life in the Lower St-Lawrence and Gaspé regions of the Province of Quebec. These studies were conducted under the joint sponsorship of the federal and provincial governments, under the Agriculture Rehabilitation and Development Act. The study on transportation in these regions of Quebec bears the date June, 1965, and covers all modes of transport. Inevitably, the effect of the Maritime Freight Rates Act within these regions on the movement of freight by rail and truck occupied an important part of the transportation study.

The Eastern Quebec Planning Bureau study came to the same conclusions, regarding the position of Quebec truck operators affected by MFRA, as did the MacPherson Commission and the Economist Intelligence Unit in their findings regarding the effects of MFRA on Maritime trucking operators. The Eastern Quebec Planning Bureau Inc. said, in regard to the unilateral subsidization of railway freight shipments in the Lower St-Lawrence and Gaspé regions:

“That situation has created discrimination for the shippers because whenever railway service was not desired for the transportation of goods, the assistance provided by MFRA proved to be inoperative. The possibility of using the flexibility and speed of road transport means a higher cost for the shipper since the existence of MFRA does not permit free competition between the various modes of transport, a competition which could result in a rate reduction.”

Study, p. 88-89 (translation of French)

Referring to several federal subsidies, including the MFRA, paid in the St-Lawrence and Gaspé regions on the movement of commodities by rail, the Eastern Quebec Planning Bureau Inc. stated:

“The implementation of such a policy fostered the establishment of unfair competition between various carriers and resulted in placing the interest of the regional economy in the background. It is therefore essential that this situation be cured by considering a new distribu-

tion of subsidies that will take account of the existence of all modes of transport and enable them to provide the shipping public with the benefits at their disposal."

Study, p. 138 (translation of French)

The Eastern Quebec Planning Bureau Inc. took the same view as to how subsidies on freight movements should be paid as was taken in the report of the MacPherson Commission and the report made to the federal Department of Transport and the Atlantic Development Board by the Economist Intelligence Unit. The Planning Bureau stated:

"The moral obligation of the state to look at the well-being of a community has field for application in the implementation of an efficient policy on subsidies. The elaboration of such a policy requires that one take account of its diverse repercussions on the regional economy, on the one hand, and on the whole transportation system, on the other hand. If one wants to reach simultaneously these two objectives, it is necessary that the government study the appropriate means of reaching them, one of these being the way subsidies are to be paid. The most equitable manner of allocating the subsidies would be to pay them directly to all modes of transport. This solution would offer the double advantage of fostering the regional economy as well as of preserving the efficiency of the transportation system."

Study, p. 140 (translation of French)

Let it be brought out frankly and stated as fact that the reason the Maritime and Quebec trucking industries, forty years after their birth, continue to suffer under this discriminative legislation, is that the forces in the Atlantic Provinces who have been influential in determining policy on MFRA were reluctant to see the Act touched. Shippers in the Atlantic Provinces are concerned that any change in the present policy of administering the MFRA will lead to increased transportation costs. This attitude has been sensed by all in the trucking industry who are seized with the problem of bringing about a new, fair policy in regard to MFRA in order to end the discrimination against trucking. Indeed, the Atlantic Provinces Transportation Study took cognizance of this very attitude, and its serious consequences for the Maritime economy, when it stated:

"One of the major complaints which is frequently put forward by Atlantic Province interests with regard to their transport difficulties is the fact that competition in the region is not as intense as in central Canada and there is therefore less pressure in the area for the railways to hold their rates down. This being so, it should be clear that every opportunity should be taken to stimulate further competition in order to maintain an effective check on unwarranted rate increases and it is curious that many interests in the Atlantic provinces are so concerned to preserve a measure which has precisely the opposite effect. A system whereby, when one mode of transport charges a particular rate, the revenue from that rate represents only 80 percent or so of the total revenue received from that rate (whereas it would represent the total revenue for a competitor) is clearly a system which discriminates in favour of the subsidized mode."

Atlantic Provinces Transportation Study report, Volume V. p. 53

It has been a source of great encouragement to the trucking industry to note that within recent months the Maritime Transportation commission, the Atlantic Provinces Economic Council, and the four provincial governments, as well as many shippers, have all acknowledged the inequity of the present system of subsidizing one mode of transport only. These developments reflect the desire of the shipper to choose a mode of transport on a competitive basis best suited to his requirements.

The realization that forty years of discrimination against the trucking industry, weakening its economic position and defeating the very objectives for which Maritime shippers are striving—a transportation system that depends for effectiveness and equity on the economic strength of all modes—has at last produced a committed Atlantic Province community in the matter of modernizing and updating MFRA.

We were encouraged, too, by the undertaking as to the hoped-for target date for new legislation given by the former Minister of Transport, Hon. J. W. Pickersgill, speaking before the Standing Committee on Transport and Communications of the House of Commons on November 3, 1966, when he stated that the Government hoped to be able to



legislate with regard to the MFRA in 1968. On December 7, 1967 a joint CTA-MMTA delegation, led by the Presidents of the two Associations, met with the Hon. Paul Hellyer, Minister of Transport, to ask for an immediate amendment to the Maritime Freight Rates Act. The delegation was told by the Minister that the Government could not extend the MFR subsidy to the Atlantic Provinces' trucking industry at that time because it was estimated that the additional cost to the federal Government would exceed \$4 million. We were informed that the question of federal Government policy on transportation in the Atlantic Provinces had been referred to the Canadian Transport Commission for further study.

Whatever may be the time-consuming process of deliberation in regard to other facets of the Atlantic Provinces transportation system, we ask that the federal Government, as long as it maintains the Maritime Freight Rates Act, remove immediately from that Act the discrimination against modes of transport other than rail.

A matter of great concern to the trucking industry in the Atlantic Provinces is the fact that freight shipped in part or in whole by rail-owned trucks has benefitted from the MFR subsidy to the detriment of the independent 'for-hire' trucking industry. This occurs when the railways contract for shipments between two points within the region on a railway bill of lading and the goods are then moved partly by rail and partly by truck, or completely by truck. We believe that payment of the subsidy under these circumstances is contrary to the Act. The authority charged with administering the Act should take adequate steps to see that such practices, to the extent that they exist, are discontinued pending an amendment to the Act extending the benefits under the Act to all modes of transportation without discrimination.

We ask, in short, for an immediate amendment of the Maritime Freight Rates Act to open the benefits of this Act to all freight shippers—by truck, air and water transport, as well as by rail, pending final determination of federal Government policy for the Atlantic Provinces. Only by acting promptly can the federal Government bring to an end the misallocation of transportation resources in the Atlantic Provinces to which all authoritative enquiries have drawn attention and which has had such serious effects not only on the non-rail carriers but on the whole Atlantic Provinces' economy.

#### FEDERAL GOVERNMENT POLICY IN RELATED MATTERS

The MFR subsidy is the major problem faced by the trucking industry in the Atlantic Provinces.

There are other areas of concern to the trucking industry in Eastern Canada which are affected by federal Government policy. These include the transportation links to Prince Edward Island and Newfoundland, acceleration of all-weather highway building and the need for port facilities tailored to the needs of highway transport. These and other matters have been adequately covered in the three major transportation studies undertaken in the past seven years. Furthermore, we are advised that these problems are being covered adequately in the submissions made by other groups to this Committee.

All of which is respectfully submitted,

Canadian Trucking Associations Inc.

Maritime Motor Transport Association Inc.

Trucking Association of Quebec Inc.

(L'Association du Camionnage du Québec Inc.)

March 8, 1968.



## APPENDIX 'A'

EXTRACT FROM ATLANTIC PROVINCES TRANSPORTATION STUDY  
REPORT, VOLUME V, PAGE 30.

TABLE 8. RAIL RATES ON ELECTRIC STOVES TO MONTREAL FROM HAMILTON, ONTARIO AND SACKVILLE, N.B.

All rates in cents per 100 lb.

Sackville rates for minimum carload weight of 30,000 lb. except for motor competitive rate (minimum carload weight 24,000 lb.)

Hamilton rates for minimum carload weight of 20,000 lb. except for motor competitive rate (minimum carload weight 24,000 lb.)

Date	Description	Sackville to Montreal	Hamilton to Montreal		Sackville Advantage over Hamilton all-year Rate	
			All- Year Rate	Summer Water Com- petitive Rate	Cents	Percentage
June 30/27	Prior to M.F.R.A.....	40	54	—	14	26
July 1/27	M.F.R.A. reduction.....	34	54	—	20	37
June 3/46	Water competitive rate established.....	34	54	41	20	37
Apr. 8/48	21% increase.....	41	65	50	24	37
Sept. 15/48	15% competitive rate increase.....	41	65	58	24	37
Oct. 11/49	8% interim increase.....	44	70	58	26	37
Mar. 23/50	16% interim increase.....	48	75	58	27	36
June 16/50	20% final increase.....	49	78	58	29	37
July 26/51	12% interim increase.....	55	87	58	32	37
Feb. 11/52	17% final increase.....	57	91	58	34	37
Apr. 15/52	17% competitive rate increase.....	57	91	68	34	37
Jan. 1/53	9% increase.....	62	99	68	37	37
Mar. 16/53	7% increase.....	66	106	68	40	38
Apr. 15/53	9% competitive rate increase.....	66	106	74	40	38
Nov. 15/53	Class rate adjustment.....	66	117	74	51	46
Dec. 14/53	Sackville Truck competitive rate estab- lished.....	61	117	74	56	48
Jan. 17/55	Hamilton Truck competitive rate estab- lished.....	61	47	—	-14	-30
July 3/56	7% interim increase.....	65	47 <sup>a</sup>	—	-18	-38
Jan. 1/57	11% final increase.....	68	47 <sup>a</sup>	—	-21	-45
July 1/57	M.F.R.A. subsidy increased to 30%.....	62	47 <sup>a</sup>	—	-15	-32
Dec. 1/58	17% increase.....	73	47 <sup>a</sup>	—	-26	-55
May 6/60	Commodity rate reduced by Freight Rates Reduction Act.....	72 <sup>f</sup>	47 <sup>a</sup>	—	-25	-53
July 29/63	Hamilton rate increased.....	72	51 <sup>b</sup>	—	-21	-41
Nov. 2/64	Hamilton rate increased.....	72	57 <sup>c,d</sup>	—	-15	-26
July 19/66	Hamilton rate increased.....	72	61½ <sup>a</sup>	—	-10½	-17

<sup>a</sup>There is also a competitive rate of 45¢, established February 8, 1955, for a 30,000 lb. carload.<sup>b</sup>There is also a competitive rate of 47¢ for a 30,000 lb. carload.<sup>c</sup>There is also a competitive rate of 50¢ for a 30,000 lb. carload.<sup>d</sup>Transferred to an agreed charge, May 4, 1964.<sup>e</sup>There is also a competitive rate of 52½¢ for a 30,000 lb. carload.<sup>f</sup>The rate reduction on commodity rates under the Freight Rates Reduction Act resulted in the commodity rate being below the competitive rate.

SOURCE: Maritimes Transportation Commission

## APPENDIX A-83

BRIEF  
TO  
HOUSE OF COMMONS STANDING COMMITTEE ON TRANSPORT  
AND COMMUNICATIONS  
PRESENTED BY  
CAMPBELLTON CHAMBER OF COMMERCE

The Campbellton Chamber of Commerce was very pleased to learn that your Committee has decided to hold hearings in the Atlantic Provinces so as to determine first hand some of the problems we are faced with in our region. We are particularly pleased that you have chosen Campbellton, the Gateway to the Maritimes, as one of your stops. The Chamber of Commerce welcomes you to our City and it is sincerely hoped that through our discussions, appropriate action will be initiated to alleviate some of our transportation problems.

Many submissions will be presented to you concerning railways and transportation. We have taken part in many of the discussions and we wholeheartedly support many of the points being raised in other briefs.

For our part, we would like to deal almost exclusively with proposals as pertains to highway transportation.

A. The Campbellton Chamber of Commerce strongly urges that the Government of Canada enter into an agreement with the Province of New Brunswick so as to allow the Province to begin immediately the construction of a Second Trunk Trans-Canada highway along Route 11 in New Brunswick.

B. That the above mentioned agreement include the same cost-sharing advantages as the main Trans-Canada highway agreement.

Ladies and Gentlemen, transportation and problems related to transportation have been discussed in New Brunswick since before Confederation. It is sincerely hoped that by your visit to our region and with the interest and concern which has been expressed to you in other briefs, that we may now look to

greater and quicker improvements in the near future.

With the improvement of our highways, the people living along these routes will be able to more fully participate in the wealth being shared in other sectors of this great country of ours.

For many years now, our region has been deprived of profiting to a much greater degree from the potential tourist industry which could be developed with modern highways. Your Committee has spent several days in our Province and we are sure that you are now convinced that our region possesses more natural beauty than any other in Canada. Allow us to profit by this.

There is a large market in the Eastern United States which could be developed to the fullest should these markets become easily accessible through improved highways. Our fishermen would be allowed to quickly get their products to this large market. Our wood-working industries would be allowed to expand their markets.

With the tendency today toward centralization, and particularly in New Brunswick, these services must become more readily accessible to a greater number of people. At present, a segment of our province has been deprived of even local services they once had, and transportation to a larger becomes a major problem. When highways are improved, more citizens partake of these services, resulting in expanded and improved facilities and a higher standard of living for all.

The Campbellton Chamber of Commerce wishes to thank you for allowing us to make this presentation. Again, it is our sincerest hope that concrete results will be forthcoming as a result of your deliberations.

## APPENDIX A-84

## SUBMISSION BY

THE DALHOUSIE TOWN COUNCIL  
THE DALHOUSIE DEVELOPMENT COMMISSION  
THE DALHOUSIE BOARD OF TRADE

## PART I

## INTRODUCTION

The Town of Dalhousie, the Dalhousie Development Commission, and The Board of Trade of Dalhousie on behalf of other civic groups and organizations appreciate this opportunity to make known its views to the House of Commons Standing Committee on Transportation and Communications.

The Town of Dalhousie, having had a continuing interest in transportation problems, is more than earnest to present its views, and add to the information process in order that ultimate policy decisions will have a favourable effect on the vital economic development of Northern New Brunswick.

## PART II

## GENERAL INFORMATION

Dalhousie is a medium-sized industrial town on the south bank of the Restigouche River at its mouth, where it empties into Chaleur Bay. As early as 1866, Dalhousie was the third ranking port in New Brunswick. Today, Dalhousie is New Brunswick's second winter port. Despite severe ice conditions in the Gulf of Saint Lawrence, many ships load and clear the port during the winter months.

Dalhousie, with its population of a little more than 6,000 has many industries. It is the newsprint capital of the Maritimes. The local plant of the New Brunswick International Paper Company exported an average of 696.8 net tons of newsprint daily during 1967. The pulp and paper industry in the Dalhousie area employs approximately 2300 persons the year round.

Because of its site, Dalhousie has attracted other important industries. Allied Chemical Maritimes Limited is located on the outskirts of Dalhousie. A spokesman of the company stated recently that his company was planning an expansion to meet the requirements

of around-the-clock production. Another important industry of the town is Canadian Industries Limited which started operations in 1963 and has added to the economic growth of the town.

A huge thermal plant is well underway on the outskirts of Dalhousie. The estimated cost for developing the site and installing the first unit is \$23,000,000. The first 100,000 KWH is scheduled to be producing power in the fall of 1969. Additional generating capacity units will be installed. The fact that the Province of New Brunswick has decided to build the largest thermal plant of the province close to Dalhousie, and this after a very long and serious study, indicates that large industrial developments are expected for this part of the province. More power will be produced by these thermal units than actually needed. New industries will be attracted by readily available electric power and existing industries could expand. Canadian Industries Limited in Dalhousie is awaiting this thermal power to double production.

An unlimited amount of water for industrial purposes is available from the Eel River Dam situated at approximately four miles from Dalhousie.

## PART III

## TRANSPORTATION

Whereas Dalhousie is mainly an industrial town and whereas adequate transportation is a necessity to stimulate existing industries and attract new ones, and whereas transportation is of vital importance to the continued economic growth of Dalhousie and the surrounding area, the Town of Dalhousie, the Dalhousie Development Commission and the Board of Trade would like to present its general and/or specific views on the following aspects of transportation:

1. Second trunk Trans-Canada Highway
2. Air services



## 3. Railways

## 4. Wharf and Ferry facilities

*Second Trunk Trans-Canada Highway*

1. Northern New Brunswick is densely populated and highly industrialized. It has been predicted by the Community Improvement Corporation that within 5 to 10 years, the population of Northern New Brunswick will climb to approximately 100,000. The bulk of this population will be in the northernmost section of the province on account of the giant strides this area is now making towards industrialization.

Highways which were conceived for traffic in the 1930's are totally inadequate to accommodate traffic now, more than a quarter of a century later. The number of motor vehicles has increased more than 100 per cent since these highways were first built, population figures have climbed—along with highway accidents and fatalities. Automobile insurance in Northern New Brunswick is higher than that in any other place in the province.

A second trunk trans-Canada highway which would link the Campbellton-Dalhousie area to Bathurst and which would by-pass towns, villages and other densely populated areas is an urgent necessity. Such a highway, besides providing quicker delivery of goods would stimulate the tourist trade of this area.

In recent discussions with the Minister of Public Works for New Brunswick, Hon. André Richard, it was learned that the Provincial Government is most eager to see the people in our section of the province be provided with highways which would meet trans-Canada Highway standards. It was further learned that the Province is awaiting a cost sharing agreement in order to proceed with such a project. This project is a necessity. We therefore hope that the Commons Transport Committee do all in its power to see that work on this highway starts immediately.

*Air Service*

2. The North Shore of New Brunswick is very concerned about air services. The Restigouche Airport Committee, along with many interested groups, firms and individuals, feels that the vital interest of the area are closely related to improved air services. It feels that daily flights to and from points east and west through Charlo are essential to the economic development of this area.

The Charlo Airport is situated at Charlo, New Brunswick less than one mile south of main highway 11, and six miles from Dalhousie. Charlo airport was the first to be built in Northern New Brunswick. It is the only one in full operation at this time and it is continually busy receiving scheduled flights of Eastern Provincial Airways, many chartered planes of Company and business officials, numerous private planes of American tourists and outdoorsmen who visit our area. Important sums of money have been spent by the Municipality of Restigouche and the Federal Government to build this airport.

We feel that the Charlo airport should be expanded to become the hub of air travel in Northern New Brunswick by providing *daily* air service to and from points east and west. This airport is the geographical center of a densely populated area in full economic effervescence. It is fully operational. Expanding this airport would require a minimum of expenditure.

The member of parliament for Restigouche-Madawaska, Mr. Jean-Eudes Dubé stated in the House of Commons on May 26, 1967, that the Charlo Airport had received at all times the support of the Department of Transports. He added that when the airport is so close to its final objective, that is providing daily air service, it would be a waste of public funds if the Charlo airport were left out of the picture.

This demand, that Charlo Airport become the hub of travel in Northern New Brunswick is based on the following criteria.

1. Suitability of site
2. Public need and demand
3. Economy

*Railways*

3. Dalhousie is situated on a branch line of Canadian National Railways, six miles long, which joins the main line at Dalhousie Junction. However, for a number of years trains have ceased to make stops at Dalhousie Junction and residents from Dalhousie and the surrounding area have had to drive 16 miles or more to Campbellton in order to board an east-bound or west-bound train.

On the other hand, the local industries such as the New Brunswick International Paper Company, Canadian Industries Limited, and others make extensive use of freight service. The revenue for the C.N.R. from this freight service is important enough to war-

rant better passenger service to residents of Dalhousie and the surrounding area.

At a recent meeting of Mayors and other Municipal leaders held in Bathurst on February 6, 1968 the C.N.R. was severely criticized. In our opinion this criticism is not exaggerated and certainly overdue. The criticism centered around the C.N.R.'s deteriorating conditions in transportation. Specific criticism was aimed at:

1. Increased costs of transportation
2. Slower service and long delays
3. Poor morale among employees
4. Deprivation of service of Ocean Limited
5. Poor service
6. Indifferent approach to customer service
7. High freight rates

We feel that:

1. This area, whose economy is much lower than the rest of Canada should not be penalized in order to decrease the deficit of the C.N.R. or to increase its profits.

2. The new rates impose a heavy burden on small industry and prevent it from being competitive.

3. The revenue received from Dalhousie and the surrounding area is not proportionate to the service received.

In order that the residents of this area be served adequately there should be a stop near Dalhousie, either at Charlo Station or at Craig by-road, near the airport.

#### *Port and Ferry Facilities*

4. Dalhousie is New Brunswick's second winter port. It is a general cargo port. As stated earlier, despite severe ice conditions in the Gulf of Saint Lawrence, many ships load and clear the port during the winter months. A recent example of the excellence of this port was evidenced in early January when a ship unable to reach Montreal unloaded more than two hundred and thirty-two (232) European cars at the federal wharf in Dalhousie.

An industrial survey of Dalhousie, conducted by the Research and Development Department of the Canadian National Railways in 1961 describes the very good natural conditions of the harbour. In addition, the port is four hundred (400) railroad miles closer to Montreal than Halifax.

The Department of Transport wharf was completed in 1960. A major repair job was done to the structure in 1964 and the wharf today is as follows: length, 583'; width, 80'; depth alongside 34' L. M. O. S. T. The docking space has since been increased to 1,000'.

Imports during 1967 were:

25,147 net tons of soda ash, sulphur, paper cores and general cargo; 7,635 net tons of petroleum products—Total 32,782.

Exports during 1967 were:

254,346 net tons of newsprint paper; 383,197 net tons of copper, lead and zinc concentrates (on 18 ships); 3,240 net tons potatoes; 5,966 net tons wood pulp—Total 646,749.

Regardless of the very good harbour conditions, port facilities could be improved so that maximal output could be obtained from the harbour at Dalhousie. In some cases, vessels were forced to lie at anchor to await a berth. In other cases, vessels have had to sail before loading their full cargo because of running ice in the river.

In some instances the dust of large quantities of concentrates, soda ash, and sulphur is considered injurious to other commodities. One could go on listing the physical inadequacies encountered by ships berthing, loading and clearing.

We feel that port facilities are an essential factor to our continued economic growth. We equally feel that financial assistance in sufficient amount is long overdue.

We recommend that the present facilities be confined to bulk cargoes. We also recommend that a new structure to handle general cargo be commenced immediately. The plans for this structure have already been completed. This project is long overdue.

From 1960-1966 inclusive, fifteen million dollars was spent for port improvements at Halifax and Saint John. At the same period very little was spent at Dalhousie other than for improvements which were of benefit to one particular shipper.

Our proximity to the Province of Quebec and our tourist trade demand that Dalhousie be linked to the Province of Quebec by ferry service. For many years the ferry Romeo-Annette operated on a one-hour schedule.

In 1965 this service was discontinued. However, last summer a local company acquired a ferry and offered excellent service

up to late in the season. It is hoped that the government will continue to subsidize this service and have alterations made to the ferry wharf so that docking is made easier.

*Summary and Recommendations*

4. We are acutely aware of the problems that have arisen in regards to transportation in Northern New Brunswick and particularly in the Dalhousie area. We have a deep interest in the economic growth of the area. We ardently desire to leave behind this era of "have not" and share the benefits concomitant with economic growth experienced by other parts of Canada.

We recommend that the Committee consider seriously our reasonable requests for:

1. Financial assistance in obtaining a second trunk Trans-Canada Highway from Campbellton—Dalhousie area to Bathurst.

2. Improved air services by qualified air carrier through Charlo to and from points east and west daily.

3. Better and less expensive service from the C.N.R. for this area.

4. Financial assistance for a port in the east bay area to commence immediately; and ferry link between Dalhousie, in New Brunswick and Miguasha in the Province of Quebec.

In concluding we would like to add that we feel that we were to some extent handicapped in the preparation of this submission by the short advanced notice given to us to prepare and present it.

Respectfully submitted,

THE DALHOUSIE TOWN COUNCIL  
THE DALHOUSIE DEVELOPMENT  
COMMISSION

THE DALHOUSIE BOARD OF TRADE  
on behalf of other civic groups and  
organizations.

Campbellton, N.B.

March 6, 1968



## APPENDIX A-85

SUBMISSION BY THE PROVINCE OF PRINCE EDWARD ISLAND  
CHARLOTTETOWN, P.E.I., FEBRUARY 1968.

Mr. Chairman, and Members of the Committee. On behalf of the Government and people of Prince Edward Island I welcome you to our Province and Capital. We are pleased that you have come to observe our transportation facilities, to learn about our transportation problems, and to consider the suggestions for improvement which we will advance. We believe that it is very important for members of the House of Commons, representing as you do, all parts of Canada, to visit and become much better acquainted with each and every part of the country. We hope that this visit to Prince Edward Island and the other Atlantic Provinces will be beneficial to you and productive of good results for all the people of Atlantic Canada.

Transportation is vital to the economic and social life of any area, but it is particularly vital when that area is an Island dependent on exporting its production and importing most of its requirements. Our insular circumstances makes us more conscious and more concerned with transportation than might often be the case if conditions were otherwise. Further, the fact that we are located on the eastern extremity of this country, quite far removed geographically from our major markets and suppliers greatly increases the importance and impact of all aspects of transportation. It is in this light, viewed from our position with all attendant circumstances that our transportation must be considered. And I would hope that as members of this very important committee you would place yourselves in an Islander's position for this day, and subsequently when you are preparing your report to the House of Commons. When I speak of transportation I have in mind all the major modes of transportation—railway, highway, air and water. (to these I emphatically add one more—*Causeway*.) We also are considering the major elements of a transportation system—*facilities* (Railway tracks, roads, airports, harbours, etc.), *equipment* (rail cars and locomotives, trucks, airplanes, ships, etc.), *rates* (it is of little value to an economy to have facilities and equipment if

the rates for moving goods are such that they impose prohibitive or unreasonable penalties on an area), and *service* (unless the transport provides reasonably adequate service to the region it is again failing in its responsibility.) I hope that in our discussions today we will give proper consideration to all modes of transportation and to all aspects of this important industry.

Last October the Minister of Transport wrote the Premiers of the Atlantic Provinces requesting their views on the Atlantic Provinces Transportation study so as to assist the Government with the formulation of future transportation policy for the region. In mid December when the four Premiers met Mr. Hellyer to submit our objections to the new railway non-carload freight rates, the Minister told us that he would be receptive to a proposal from the Atlantic Provinces for a future transportation policy for the Atlantic area. The Premiers accepted this invitation and about a month ago representatives of the four governments met in Moncton for further discussions. At this meeting the decision was made, which I believe has subsequently been endorsed by all four Governments, to appoint a task force to study and prepare for the governments a future transportation policy for the Atlantic Provinces. The personnel for the task force will include at least one person from each Province who together with the staff of the Maritimes Transportations Commission will form the nucleus of the task force. This group is already at work but it will be some months before we can expect the results of their studies. This is a good example of greatly expanding united effort in these provinces to jointly and co-operatively work on our many areas of common interest and concern. The assignment undertaken by the task force is a vitally important one. The results of their work will, we hope, form the basis for the Atlantic Governments proposals to the Minister of Transport and the Government of Canada.

Transportation is an essential element in the economic development of any region. It is

sometimes questioned whether or not transportation assistance should have a development function. There are certainly many other very necessary requirements for regional economic development, and it is not necessary to discuss them now. But economic development is to a very considerable extent dependent on transportation. This is especially true in the Atlantic region and particularly in this Province because of our location, our population and the type of our production. Most of our production has to be moved out of the region to markets elsewhere, and most of our requirements have to be transported into the region from suppliers and manufacturers in other parts of Canada or other countries. So transportation is of paramount importance to this Province. Our very economic existence and any hope of future developments depends on it. No other matter is of such vital interest and concern to the government and people of Prince Edward Island. I am sure that the members of this Committee will understand and appreciate this fact.

The Transportation facilities operated by the C. N. R. between Borden, Prince Edward Island and Tormentine, New Brunswick is the economic lifeline for this Province. Yesterday you travelled to Prince Edward Island on the M. V. Abegweit, one of the two ice-breaking ferries on this service. I hope you realized how precious that ship is to this Province. If the M. V. Abegweit (now over 20 years old) should for any reason be forced out of service tomorrow, or at any time in the next few months, even for a short period, we would then be solely dependent on the M.V. Prince Edward Island, a 53 year old boat that is just not able to cope with the ice conditions in Northumberland Strait. Any disruption in this service would bring serious economic hardship to this Province. As you may be aware a new carferry for this service, the "John Hamilton Gray" is now under construction. It was originally scheduled to enter service this spring but this has now been delayed to October. We regret this loss of this new ship for next summer's heavy traffic movement but we urge that there be no further postponement so that the ship will be available for the next winter season.

But a ferry service, no matter how capable the ships, or how efficiently operated will never provide proper transportation between this Province and the Mainland, nor does it meet the commitments made to this Province

when it joined Confederation nearly 100 years ago. The obligation of providing continuous communication which the Government of Canada assured us in 1873 can only be honored by the construction of a permanent crossing—whether solid causeway, bridge, tunnel, or a combination of two or more of these elements. Not only is this connection the fulfillment of a 95 year old obligation, it is also, and more importantly an absolute necessity for the proper economic development of this part of Canada. The construction of this crossing is also a sound economic project when one makes a cost analysis of all the benefits that will accrue from it. I will not go into this aspect now; it has been well explained by Colonel Edward Churchill, the co-ordinator of the Northumberland Strait Crossing, especially in his speech to the Charlottetown Board of Trade last October. I will merely mention a few factors; the annual operational deficit borne by the Federal Treasury on car ferries is now \$6,000,000; in addition the cost of the ships, and the construction, repairs and maintenance of docking facilities is a very considerable figure. These expenditures will be eliminated when the Causeway is constructed. But what is of much greater importance and significance is the benefit which the Crossing would bring to the economy of this province, and indeed of this entire Maritime region. This is difficult to determine accurately but the preliminary indications confirm that the economic improvements and developments which the crossing will generate will more than balance the financial investment. As Members of the House of Commons representing constituencies in all parts of Canada I expect that you have heard critical comment about this project particularly the suggestion that 110,000 people should not warrant the expenditure of that amount of money. We cannot accept this kind of conclusion because sound analysis of all the facts confirm the economic soundness of a permanent Crossing. Federal parliamentarians and provincial leaders from every province has firmly endorsed an objective of closing the economic gap that exists between the Atlantic region and central Canada. The Northumberland Strait Crossing is the type of undertaking that can ideally contribute to a reduction of the disparity that presently exists. The Government of Prince Edward Island wants to impress on this Committee the genuine merits of this project and solicit your endorsement of it.



The design of the Crossing has not yet been finalized; however, we strongly insist that whatever type of structure is finally deemed most desirable, must provide for a rail line on it. On this matter our Government stands firm; the crossing must be of such construction that a railway line can be operated on it. Railway service is essential to the economy of this Province and will continue to be so. It is almost inconceivable to consider industrial development, expanded agricultural production, or progress in any area of development, without rails and then operate the ferries to move rail freight. This does not make sound economic sense and more emphatically it does not improve our rail service with the mainland. On the contrary it would cause a deterioration in this service.

Prince Edward Island suffers from a lack of transportation facilities and adequate transportation services. The Atlantic Provinces Transportation Study, Volume III, page 1, states, "Shippers of many agricultural and fisheries products in Prince Edward Island cannot exploit the markets fully, because of the shortcomings of the transportation facilities". We are concerned about what appears to be a general deterioration in the facilities and services provided by the railway. Again, I do not propose to go into this in detail; this can be done much better by the Board of Trade, the shippers, businessmen and representatives of the many companies who use the services, and who will be giving you their views. But, in general, we are concerned about the shortage of sufficiently suitable railway equipment to move our agricultural and fisheries production to markets outside the Province. There is a shortage of locomotive power, services are being curtailed and fear is expressed that railway lines are not adequately maintained. The frequency and quality of service does not meet the needs of our shippers and business enterprises. We would like to see some positive moves by the railway to improve facilities, equipment and service which would demonstrate to all of us that they are determined to provide now and in the future the rail service which would contribute to an expanding economy.

Equally essential is the matter of freight rates. Unless the shippers and importers in this area can move goods at reasonable rates our primary industries, and indeed all economic development will be severely restricted and retarded. For this reason we were

very much opposed to the non carload freight rates structure that was imposed by the railway last fall. Subsequent events have not eased our concern and we contend that this new non carload tariff will cause the closure of some already established industries, seriously impede development of primary and secondary industries, and significantly increase the cost of a vast quantity of goods imported into this region. Once again I will not go into details or particulars; this will be vividly and more effectively done by the users of the service. Under this new non carload rate structure, rates, practices and conditions of carriage were radically changed. The implementation of this new tariff on September 5 last, virtually cancelled all former rail express rates as well as competitive L.C.L. freight rates. The provision of free pick up and delivery and railway cartage services for shipments moving at commodity or non competitive rates was also cancelled. In addition a density rule of 10 pounds per cubic foot for assessing charges was instituted. There were other changes which we will not detail here. Under the new National Transportation Act rates and rules no longer require the prior approval of the Canadian Transport Commission. Hence the drastic and damaging changes in non carload freight shipments were forced on the people and economy without any prior review, discussion or approval.

These changes are particularly detrimental to the Atlantic Provinces. Because of our more or less scattered population, there is less opportunity to ship in full carload to the market or to bring in goods in carload quantities. The statistics confirm this. In 1966 the railways handled 364 pounds of L.C.L. Freight per person in the Atlantic Provinces as compared with the national figure of 192 pounds per capita. This means that the Atlantic Provinces use 89.5 per cent more L.C.L. freight service than the rest of Canada. The changes have placed severe financial hardship on manufacturers, processors and companies in this Province. The future operation of some companies is in jeopardy.

On December 13th the Premiers of the Atlantic Provinces made a submission to the Minister of Transport on this matter. I will not attempt to even summarize this submission, it has been provided to the Committee by the Maritimes Transportation Commission. But I do want to impress on the Committee the seriousness of these changes and summa-



the request we made to the Minister of Transport.

1. That the reduction in intra-Maritime rates referred to in your announcement of November 9 be implemented at once;

2. That the railways be required to withhold their application to cancel the existing less than carload freight rates, at least until a new regional transportation policy is developed and implemented;

3. That the so-called density rule be reduced from one cubic foot equalling ten pounds to one cubic foot equalling five pounds; and

4. That immediate steps be taken to extend the Maritime Freight Rates Act subsidies to other forms of transport.

We do not propose to deal at length with the matter of highway transport even though we are much concerned about it. The Maritime Motor Transport Association will be making a presentation to the Committee and we strongly endorse and support the recommendation of this Association. We are convinced of the necessity of improving the trucking services in this Province and region. To this end we must assist in solving the problem and removing the obstacles presently faced by trucking industry. We make six suggestions that we feel should be acted upon to improve this mode of transport. Two of these have been mentioned in another context.

1. The extension of the subsidy provisions of the Maritime Freight Rates Act to motor transport.

2. The early construction of the Northumberland Strait Crossing.

3. The establishment of uniform licensing, rules, regulations and tax for transport engaged in inter-provincial transport.

4. The provision of terminal facilities in the larger centers.

5. The construction of the Corridor Road through Maine.

6. The extension of all weather highways to serve all the rural arterial and main trunk highways in this Province.

The Maritime Freight Rates Act arose from certain obligations and commitments made to the Maritime Provinces at Confederation which were intended to afford Maritime

shippers access to larger markets in other parts of the Country. This commitment was honored through various forms of assistance until the enactment of the Maritime Freight Rates Act in 1927. Among other things this Act was intended "to afford to Maritime merchants, traders and manufacturers the larger markets of the whole Canadian people, instead of the restricted markets of the Maritimes themselves." The objective of the Act was twofold, to maintain a statutory rate advantage in the Maritimes and to fulfill an obligation of Confederation by assisting Maritime interests to participate in wider markets than would otherwise be available. I do not propose to go into the historical or legal background to discuss in detail the transportation events and economic forces that have occurred since 1927 and which have caused the Maritime Freight Rates Act to fail in its objectives. The effectiveness of the Act has progressively deteriorated. The development of competitive transport facilities in other parts of Canada and the large and frequent horizontal rate increases, contrary to the purpose of the Act have largely destroyed the rate relationship which the Maritime Freight Rates Act was designed to maintain. Clearly, a major revision and updating of the Act is necessary. This will require more thorough study than we have so far been able to give it. However, there are certain very definite conclusions which we have already firmly adopted. First, it is imperative that the intent and the objective of the Maritime Freight Rates Act be retained and the Act amended so that new policy and machinery be implemented to enable a return to the Maritime advantages which prevailed after the coming into force of the Act in 1927. Second, we urge two changes in the new improved Act:

1. That the subsidy provision of the Act be extended to other public modes of transport; and 2. That the subsidy benefits be payable to the shipper. There are other changes that we believe should merit the most serious consideration. The present Act does not provide any subsidy on shipments to the United States or other export traffic. We submit that such traffic should be included for subsidy payments. At the present time most of our fisheries production and a considerable quantity of agricultural products are dependent on markets in the United States. We are anxious to increase the agricultural and fishery exports to the United States and other

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countries especially our potato exports which are so vital to the economy of this Province. The extension of the subsidy provisions of the Maritime Freight Rates Act to include traffic to the United States and to export markets would greatly improve our prospects

of expanded marketing in this market area of large population.

February 1968

Alexander B. Campbell  
Premier  
Prince Edward Island

## APPENDIX A-86

## A BRIEF

by the

## CHARLOTTETOWN BOARD OF TRADE

On behalf of the Charlottetown Board of Trade and those whom it represents in the Charlottetown area, the following information is submitted for your consideration and action where necessary. The presentation will be made under several different headings, each heading having reference to some problem or mode of transportation.

*"A" Freight Rates Structure*

The new rate structure for non-carload shipments issued by the Canadian National Railway on 5 September 1967 affected practically all receivers throughout the Province of Prince Edward Island because of the low density of population and the relatively small market areas, which preclude carload lot shipments of merchandise.

In 1966, non-carload freight into Prince Edward Island exceeded 1,400 carloads, largely distributed from Charlottetown and Summerside by the Canadian National Transportation Limited's trucks. Practically all of this freight was affected by the new rate structure, and this would only be a portion of the L.C.L. freight, as Canadian National Transportation Limited also operate a regular service from Moncton to Prince Edward Island.

Pool car shipments increased in Charlottetown following the new non-carload rates, but still remained restricted, moving eastward from consolidation points in Montreal, Hamilton and Toronto. There are no pool car services from Prince Edward Island nor are there pool car services from other Maritime points.

Motor carrier services are concentrated in the Charlottetown area and regular daily through service extends from Charlottetown and Summerside to Moncton, Saint John and Halifax. Freight from and to other points are interlined, but about ninety per cent of the freight originates in or is destined for the

main centres of Moncton, Saint John and Halifax.

This limitation of both pool car and motor carrier services increases the dependency of shippers and receivers on the railway services.

Under the new L.C.L. freight rate structure, cartage service is available at Charlottetown, Summerside, Alberton, Kensington, Montague, O'Leary and Souris. Most other places are served by the railway's highway trucks.

Shippers, in reaching markets throughout the Maritimes with the required small shipments, were also affected by the new rates. Commodities such as canned lobsters, poultry, dairy products, and so forth are not usually shipped in carload lots and take the new L.C.L. rates.

In the case of small shipments, a substantial increase in the rate structure was reflected by the introduction of the "density rule" based on one cubic foot equalling ten pounds. It is difficult to understand this ruling in relation to the 6.9 pounds per cubic foot used by the airlines. It also conflicts with the rate charged on other commodities shipped in carload lots subject to a minimum weight of considerably less than the 39,000 lbs. chargeable for a 3,900 cubic foot box car.

We agree with the Maritime Transportation Commission's submission of 13 December 1967 that "the railways should not be guaranteed higher chargeable weights for non-carload shipments than for carload shipments. Extra costs involved in handling non-carload traffic in relation to carload traffic is already reflected in the higher rate level for non-carload traffic in relation to the rates applying on carload traffic.

The replacement of the less-than-carload rail rates put in effect to meet motor carrier and water competition was countered by higher rates, by both rail and motor carrier.



While the new L.C.L. rates into and out of the Maritimes are lower than the rates in Quebec and Ontario, they are higher than the rates applied in the Western Provinces.

Under the Maritime Freight Rates Act, only shippers using rail freight are entitled to enjoy rates that are 20 per cent reduced on movements within the select territory and 30 per cent reduced on shipments moving westward out of the Maritimes to Diamond Junction or Levis in Quebec.

Highway transports now serve most major centres in the Maritimes and must compete with rail carriers without benefit of the federal subsidy under the Maritime Freight Rates Act. This is discriminatory, particularly as articles shipped by rail are often transferred to an associated trucking operation. The extension of the M.F.R.A. subsidy to other forms of transport has long been advocated and is now supported almost without exception by everyone in the Atlantic Provinces.

The reduction in the new rates as proposed by the Minister of Transport on 9 November entailed the withdrawal of the existing less-than-carload freight rates (non-carload shipments not requiring pick-up and delivery service). This would spread the adverse effect of the new rates to those shippers and receivers who have been able to arrange their own pick-up and delivery service. It is strongly urged that the railways withhold any action to cancel the existing less-than-carload freight rates until a regional transportation policy for the Atlantic Provinces is implemented.

We unanimously endorse the submission of the Maritime Transportation Commission to the Minister of Transport, which in summary stated:

(1) That the reduction in intra-Maritime rates referred to in the Minister's announcement of 9 November be implemented at once;

(2) That the railways be required to withhold their application to cancel the existing less-than-carload freight rates, at least until a new regional transportation policy is developed and implemented;

(3) That the so-called density rule be reduced from one cubic foot equalling ten pounds to one cubic foot equalling five pounds; and

(4) That immediate steps be taken to extend the Maritime Freight Rates Act subsidies to other forms of transport.

### *"B" Miscellaneous Problems Relative to Freight*

Since the advent of the establishment of Express-Freight service by the Canadian National Railways, the number of delayed, lost and/or misplaced shipments has increased to an alarming degree. In general, L.C.L. out of Toronto and Montreal areas have been routed into Moncton and are "exploded" there with the result that multiple parcel shipments which had been originally shipped together became separated and are liable to be placed in two separate railway cars or in some cases in railway cars and highway freight trucks. This is a situation which is extremely frustrating to the individual who has ordered the materials for a job, part of which arrive one day, the other part of which could arrive as much as a week later, and in some cases, become completely misdirected.

Another of the major problems relative to shipment by rail is the fact that although the regular express rates are still in effect, along with the L.C.L. rates as provided for under the Maritime Freight Rates Act, shipments are almost invariably handled under the new Express-Freight classification unless the customer is very specific in stating the manner in which he wants the goods shipped. On goods as vulnerable as most commodities shipped from P.E.I., i.e. food, it is essential that shipments be handled in the fastest possible manner. Delays for whatsoever reason effect to some degree the quality of the product at the other end. This, in addition to the fact that if the customer finds that he cannot rely upon his source of supply, he will almost invariably seek another. These delays are brought about by many different situations such as lack of equipment, priority at the ferry terminals, lack of ferry capacity, unduly bad weather, and extremely heavy ice conditions.

There is no doubt about the fact that with the ever-increasing volume of shipments both into and out of the Province, those carriers handling the goods have had to carry on a continuing program of changing and adapting their facilities as technological improvements become available to the transportation industry. Such improvements, of course, are always far more beneficial in areas of more dense population. In an area such as this, some of these changes have meant little to us, and their adaptation to our particular problems have not always resulted in an im-

provement in service. There has been some discussion in recent times that it might be well to give consideration to the phasing of railway service out of Prince Edward Island. This, we submit, would serve only to increase our problems beyond what they are now. To raise only one question in this regard, I would bring to your attention that there are approximately 10,000 reefer cars of potatoes shipped out of Prince Edward Island each year. If this service was going to be discontinued, it could only be replaced by temperature-controlled highway vehicles which would represent a tremendous capital investment for someone for a few weeks use in the fall and winter months. As it stands now, the reefer cars used by the potato industry of Prince Edward Island are used at other seasons of the year for the California and Florida citrus fruit business and the Niagara peach business. The mere fact that they are somewhat off-season at a time when required here makes this a very beneficial situation to our potato market. If such a transition in carrying carload lots of potatoes was to come about, it would serve only to discriminate against the sale of our product by increasing its cost in a market which is increasingly competitive. It might be well to point out something that I am sure every member of your Committee is well aware of, and that is the fact that the normal markets and trading areas of the Atlantic Provinces would be in the New England States. These markets, in general, are closed off to us by restrictive requirements and customs duties as far as our sales are concerned. Insofar as our purchases are concerned, we are compelled to buy from the various manufacturing areas of Canada, whose goods are protected by import duties coming into Canada, which means we pay a higher price than we normally would in our natural markets, while at the same time having to pay shipping charges both on our own goods sent to market and on all products purchased from Central Canada. Normally, there is some compensation in these matters. If you lose on one end, you make it up on the other. This is a case where we lose both ways.

#### *"C" Additional Ferry Service*

There is presently under construction for the Borden-Tormentine ferry route an additional ferry. This ferry is presently scheduled for delivery in September, 1968. It was originally scheduled for an earlier date. Bearing

in mind the tourist traffic between these two points last July and August, it would most assuredly be in the interests of the tourist industry of Prince Edward Island if this ferry could be rescheduled for delivery in July of this year. No single factor could contribute more in the way of service to the tourist or the economy of this Province this tourist season, than the early arrival of this ferry. Due to the fact that our tourist season is such a short period, the arrival of this ferry in September would make it available just after the tourist industry, for all practical purposes, has closed down for the year.

#### *"D" Continuous Link with the Mainland*

There is no matter that has received more consideration, or been used more for a political football in Prince Edward Island than the matter of a continuous link with the mainland. This is something that every Islander has become intimately acquainted with over the last several years. Such a link, generally, is essential to the welfare not only of this Province, but to the whole of Canada. The amount of money that is paid annually in subsidies to the present operation, plus the additional capital costs of ever-expanding and increased facilities, would come very near to carrying the total debt for such a link. At the present time there are three basic sources of money coming into Prince Edward Island. The money the farmer brings in, the money the fisherman brings in, and the money the tourist brings in. For these reasons, it is imperative that we look out for the farmer and his products, the fishermen and his products, and the tourist and his interests. The present facility, even though it is a vast improvement over what we have had in years past, is far from adequate for today's requirements. The number of occasions on which the shipment of potatoes has been delayed by the unavailability of reefer cars is without number. The number of occasions on which shipments of fish by truck have been delayed at the ferry terminals have been too numerous to mention, and in such cases, even though the shipment gets through ultimately, there is some deterioration in the quality of the product. Every one of us who travels to and from this Island during the summer months has seen the situation where tourists were lined up to get on the ferries as far as three miles back and more. Tourists in general will not put up with this. They wait so long, then leave to



carry on their holiday somewhere else. With ice-breaking ferries presently available at Borden, there is absolutely no doubt that the men who carry on this operation do an incredibly competent job. Those of us who each winter travel this route become very well aware of transportation problems which the average individual never knows exists. The fact in itself that one of the boats on this route was built in 1914, went into operation on its present run in 1917, and is doing more work today than it did in its earlier years, indicates the high order of competence and ability among the operational and maintenance personnel. The waters in which these craft travel, and the ice conditions with which they have to cope, makes this a totally different type of service than any other ferry operation. If we have a winter where ice conditions in the Straits are bad, there are times when the service is brought to a halt. For these and other reasons, it is imperative that a continuous link be established at the earliest possible date. Some of the factors relative to such a link should be borne in mind by those who are ultimately responsible for arriving at the decision.

Such a link should provide continuous service, not intermittent or broken service such as could result from heavy storms, snow, ice or wind conditions. Even on the one-mile causeway to Cape Breton Island, there are times during the winter when traffic is held up. If this is so on a one-mile causeway, how much more often and more grievous would be the situation on a seven-mile link in a much more exposed location. Such link as is established should provide the best possible travelling conditions throughout a 12-month period in each year. Any link only slightly above water level covering a distance such as this would be almost impossible to keep open in such snow, ice, and wind conditions as prevail in this area. Those of us who travel during the winter months have become extremely well aware of the fact that during certain of the winter months, waves come in and break over the wharves at both Borden and Cape Tormentine to such a degree that not only are the wharves completely deluged, but the force is sufficiently strong to move cars about. If this can happen on a wharf that is only approximately 300 yards out in the water, what will the situation be halfway across the Strait!

#### Effect on Land, Crops and Tidal Conditions

The break-up of the ice in the Spring is dependent to a large degree on the ebb and the flow of the tides, particularly between the headlands of Cape Tormentine and Port Borden. Any degree to which this gap is reduced will tend to delay this break-up. It will also tend to raise the tides a bit higher and may cause flooding of the low marshlands in the Tantramar Marsh area. The cost of diking this land would have to be borne in mind if this did result. Relative to this point, there is a factor that should be kept very closely in mind, and that is the degree to which the construction of the Canso causeway has affected ice conditions in that area. On the south side of that causeway, there is now an ice-free port, which is of tremendous advantage to the local fishermen and others. However, on the north side of this Causeway, ice conditions on average have set in two days earlier in the Fall and last from ten days to two weeks longer in the Spring. Also, for those who use Northumberland Strait for navigable purposes have found that as a result of this causeway, the ice conditions in the Strait are materially worse, and have substantially reduced the number of days on which ships not equipped as ice breakers are able to travel in that section of the Strait. Pertinent to this is the fact that on average, we have in this Province 90 frost-free days per year. Any reduction in this number of frost-free days could be extremely detrimental to this Province, not only because our potato crop could be seriously affected, but because of the fact that as a result of the establishment of frozen food plants and other vegetable processing plants in this Province, we are producing a large variety of vegetables, many of which could be very seriously affected by any reduction in the number of frost-free days.

#### *"E" Magdalen Islands Service*

The Charlottetown Board of Trade is presently strongly supporting the Magdalen Islands Chamber of Commerce in their endeavour to obtain a regular daily ferry service between Souris, Prince Edward Island and the Magdalen Islands. This service is well warranted on the basis of the fact that these people are so poorly served under present arrangements. Everything that is shipped to the Province has to be off-loaded, put aboard the present ferry, and unloaded in the Magdalen Islands for distribution by truck. This is awkward, time consuming,



and restricts to an extremely heavy degree the types of commodities that can be shipped, and to an even greater degree, the condition in which many commodities arrive, even though they might have been in prime condition at their point of shipment. It is our strong representation that a drive-on, drive-off ferry service should be provided from Souris, Prince Edward Island to the most advantageous point of the Magdalen Islands on a daily-service basis. This would offer considerably more security to this Island in the way of emergency and hospital services, and would most assuredly make a greater variety of products, in better condition and at lower cost, available to them. The reason for recommending so strongly the proposed route is that Souris is by far the nearest port facility to the Magdalens, and service from any other port would only serve to increase the amount of sailing time required to give the service, and thereby reduce its frequency.

#### *"F" Air Transport*

The fact that we are an island Province puts us in the position of realizing just what a valuable asset we have in air transport. Prince Edward Island has had air transport on an intermittent basis since the middle 20's, and on a regular basis since approximately 1933. It has meant a great deal to the Province, particularly with regard to emergency travelling and mail service. As air routes have expanded over the years, the scheduling of aircraft which used to be tied in with rail service, now of course are tied in with National and International air flights. The scheduling now is dependent on many variables, and we are well aware that we

cannot reasonably expect National and International flights to do anything other than serve in a manner so as to do the greatest good for the greatest number. This, however, in many cases does show up in poor service and poor connections insofar as we are concerned. One such situation is our not being able to get to the mainland before 11:35 a.m., and as a great majority of our traffic is to Montreal, Toronto, and Boston, they have already missed the earlier connections. For service beyond Montreal, we then have a 1 hour and 40 minute wait before connection to Toronto. Even worse is travelling East from Toronto, where if we are to get through the same day, we have to leave at the unholy hour of 6 a.m. or wait in Moncton for three hours if we wait for the 10:30 a.m. flight. The purpose of bringing this to your attention is that Eastern Provincial Airways, who serve Prince Edward Island, have an application before the Air Transport Committee of the Canada Transport Commission for permission to extend their services to Montreal. This certainly could represent a vastly improved service to Prince Edward Island, the Magdalen Islands, Newfoundland, and other areas served by Eastern Provincial Airways, and the complicated problem of phasing any local flights with Transcontinental and International services would be substantially reduced, and in the case of Montreal eliminated, if any serious endeavour were made to provide proper equipment and reasonable scheduling.

All of which is respectfully submitted.

The Charlottetown Board of Trade

Per: W. R. Brennan, P.Eng.

Transportation Committee Chairman

## APPENDIX A-87

Submitted by

T. H. FRASER

CANNER

MURRAY HARBOUR

PRINCE EDWARD ISLAND

February 5, 1968

Gentlemen:

*Re Proposed Freight Rate Changes*

Because of the seriousness of the recent freight rate changes proposed to take effect in the immediate future and which even now has to be used in cases where delivery is imperative, many small producers like ourselves can be seriously affected by these changes that are planned because rarely do we have anything in shipments that amount to carload lots. Certainly with increased competition on every hand and with increased taxes the order of the day affecting the operation of small business especially, we cannot help but believe that if this present authorized freight structure is to become the effective rates, prices can only go up on those products which we and many others produce. Here again, of course, we would find ourselves in a completely uncompetitive position and would eventually be forced out of our present operations.

While small businesses such as we are involved in may not seem to be too important to some large operators in other parts of the Nation, it is important to us here in this community and the surrounding areas. We operate a year round program and have a payroll of approximately thirty people, during the lobster season this increases considerably.

Also, we make a market available for a great deal of Maritime poultry which may not be too marketable except through an operation such as we are involved in. Our firm is not just a new business so to speak, but has been in operation before the turn of the century and has pioneered the canning of chicken in Canada so far as we are able to ascertain.

Also, we can say in a very thankful and humble way that we have always operated carefully and at all times have been able to produce a balance sheet that has not forced us to exist on Government grants or loans. This freight rate proposal, however, may be the one factor that can change this picture and force us along with many others to seek some kind of assistance heretofore not required.

Many of the orders that we become involved with are very small ones. Over the years they have meant a great deal to us from a business standpoint. Let me relate an incident that occurred just after the freight rate changes came into effect (similar incidents have been occurring in the meantime). We have been dealing for several years with one of the larger chain stores in the region who has been in the habit of having five case lots shipped to his various outlets. We have tried to have this firm accept ten case lots in order to bring our costs more nearly into line. You will understand that our five case lots could be moved to them at a cost of 36 cents per case under the old system but would be 74 cents per case under the new rules. We found that if he would accept ten cases the cost would then be 39 cents. His reaction to this was if we cannot continue as we are presently he would be forced to discontinue business with us. We thought this a rather drastic approach to the problem on his part but after giving the matter further thought we realized that he was possibly dealing with a large number of suppliers, therefore, a large additional area of storage would be necessary if each of these dealers made similar requests. I feel this will help to point up one of the problems we must face if such rates are to be maintained.

Railway service has always been considered a very important part of our operation

and this type of service has been available to us from our inception. Naturally with this new freight rate approach in the offing we have tried to find other means of transportation, but the search has been fruitless. Truckers can never do the job we require and shipments by water also, will not fill our needs for many reasons. I shall mention only two. (1) The coverage for an operation is very widespread and reaches into most places covering an area from Campbellton, New Brunswick to St. John's, Newfoundland which cannot be serviced by water; and (2) We have many months when nothing but an icebreaker can enter into our shipping ports, this would be totally useless for our type of endeavour.

I have here some comparisons prepared by our office which I believe will bear out the seriousness of the situation. We, therefore, expect in the light of what has been said heretofore and this table of comparisons that you will consider very seriously the effect of such freight rate proposals and how they will jeopardize our operations or any similar ones. We shall expect to receive word that these contemplated plans will be curtailed so as to protect small industries throughout the Maritime region. When we say small industries, naturally we are not just talking on our own behalf but in the interest of most operations that fall into that category in the Atlantic community.

BONELESS CHICKEN  
FROM MURRAY HARBOUR, PRINCE EDWARD ISLAND  
TO

Via C. N. R.	5 Case Old Rate	Lots New Rate	% In- crease	50 Case Old Rate	Lots New Rate	% In- crease
Charlottetown, P.E.I. ....	1.80	2.60	45	2.80	9.33	235
Campbellton, N.B. ....	1.80	3.75	108	9.59	16.80	75
Corner Brook, Nfld. ....	1.80	4.35	142	12.04	21.70	80
Halifax, N.S. ....	1.80	3.70	106	9.31	14.70	58
Moncton, N.B. ....	1.80	3.20	78	7.98	11.76	47
Sydney, N.S. ....	1.80	3.75	108	11.69	17.78	52
St. John's, Nfld. ....	1.80	5.40	200	15.68	27.93	78

This amounts to an increase of 45 per cent to 200 per cent with an average of 112 per cent on 5 Case Lots and an increase of 47 per

cent to 235 per cent with an average of 89 per cent on 50 Case Lots.



APPENDIX A-88

BRIEF OF

PRINCE-EDWARD-ISLAND FROSTED FOODS LIMITED  
ON TRANSPORTATION MATTERS

CHARLOTTETOWN, P.E.I.  
February 20, 1968  
House of Commons Committee  
on Transport and Communications,

Gentlemen:—

The following information consisting of particular problems with respect to our Company's operation and some general observations are respectfully submitted for your consideration.

We are a frozen vegetable processing company just beginning our eleventh year of operation on P.E.I.

We are faced with delivering finished product in Central Canadian and Export markets at a competitive price to those processors operating within that market area. Transporta-

tion costs are very important to us, as they represent an extra cost of doing business in this province.

There are two aspects of transportation costs in our business.

- 1. Shipping finished products (frozen) out.
- 2. Bringing supplies in.

The vast majority of outbound shipments are shipped under an agreed tariff with the Canadian National Railways in mechanical refrigeration cars. Limited outbound traffic is shipped by refrigerated truck.

The following table shows current rates for different load weights by both modes of transport.

Destination	40,000	Rail		Truck		(weight of shipment)
		60,000	80,000	40,000		
Montreal .....	1.32	1.03	.96	1.20		
Ottawa .....	1.43	1.14	1.06	1.40		
Toronto .....	1.45	1.30	1.22	1.50		

On a product selling for as low as twelve cents per pound in Central markets these differences are very important. Even more startling is the fact that on an annual production of ten million pounds the difference would be twenty-five thousand dollars, between truck rates and eighty thousand pounds rail loads.

The agreed tariff with the Canadian National Railways requires that we must route ninety percent of our traffic to Quebec and Ontario by rail to obtain the above rates.

Two factors make it increasingly difficult to abide by this agreement.

- 1. The railway frequently can not supply mechanical refrigerator cars as required.

- 2. Many customers and storages do not have rail siding facilities.

In the latter case it is not economically feasible to ship by rail and then transfer to trucks at the other end for local deliveries.

The truckers tell us that if they could obtain the Maritime Freight Rate Subsidy they could equal or better the rates in our present agreed charges. i. e. they would haul forty thousand pound loads for a rate comparable to the railway's eighty thousand pound loads. This would of course provide much greater flexibility in deliveries, advantageous both to the shipper and receiver. At present, we do not feel there would be sufficient truck capacity available to handle our business on a regular basis, however, if such subsidies were extended, we feel that trucking capacity would quickly build up.

Another problem is export shipments to the United Kingdom, when large quantities of frozen foods must be transferred from various Maritime processing plants to one shipping point for loading over a very limited period. To be economical these shipments must be handled directly from the carrier to the ship without being transferred to a public storage at the port. We feel that some policy should be developed whereby carriers might give preference to this type of business.

#### *Incoming Shipments:*

Being isolated from a source of supply for practically all repair and maintenance parts for our equipment, packaging and chemical supplies for our production, we are dependent on l. c. l. shipments by rail, truck or air.

We must use air freight frequently for emergency parts supplies and would like to point out some problems in this service. The main problem appears to be transfers from Air Canada to Eastern Provincial Airways at Moncton, especially on weekends.

One example is Air Cargo received at Montreal by Air Canada 31/3/67, 1425 hours and not delivered to us until April 4th, 1967. Air Canada claimed the fault was with Eastern Provincial Airways because the Eastern Provincial Airways warehouse at Moncton is closed from 2.00 p.m. Saturday to Sunday midnite.

An Eastern Provincial Airways investigation claimed that facilities were available for transferring air cargo despite their warehouse closure. At the same time they admitted that due to heavy passenger loads on this particular weekend, there would have been no space available for freight anyway, even if it had been promptly transferred.

Another very serious incident occurred when we had a specialized electric motor failure at the start of production for a major crop. We were fortunate in locating a spare in Kingston, Ontario on July 28th., however, we did not receive it until August 3rd, greatly curtailing production for the period. The motor had to be shipped Canadian National to Dorval from Kingston and was not received by Air Canada until August 1st. It still required two more days to get this motor to Charlottetown on August 3rd.

We are dealing with perishable products and in most cases, production lost on one day is production lost forever.

The recent increases in l. c. l. shipments by both rail and truck have adversely affected our costs similar to other operations in the province.

As we do not regularly bring in repetitive shipments of the same type it is difficult to provide examples in this instance.

We would like to point out the satisfactory and more economical service rendered through parcel post for both surface and air routings. Unfortunately the twenty-five pound limit precludes its extensive usage. However, we do specify this service in all possible cases.

We appreciate this opportunity to present our problems and observations and we trust that as a result of your findings and recommendations that policies may be devised, which will help close the gap between economies of the Maritimes and Central Canada. Our industry is one in which this gap can be directly traced to our transportation costs.

Respectfully submitted  
P. E. I. Frosted Foods Limited  
George Wright  
Manager

## APPENDIX A-89

## PRINCE EDWARD ISLAND POTATO MARKETING BOARD

129 Kent Street

Charlottetown, P.E.I.

February 13, 1968.

Chairman, Standing Committee on  
Transport and Communication,  
c/o Mr. R. V. Virr,  
House of Commons,  
OTTAWA, Ontario.

Dear Sir:

Owing to the short notice given, we are unable to prepare a comprehensive brief on Maritime Freight Rates Act and other matters which affect our potato industry by way of transportation.

We wish to point out that the importance of our Potato Industry is akin to the wheat of the Prairie Provinces, economic-wise, so therefore for years we have felt that the same consideration given the wheat shippers in the West should be given the potato shippers in the East as far as transportation is concerned. Transportation for both wheat and potatoes, because of their bulk and distance from markets, presents a related problem. Our potatoes are sold principally in Ontario, Quebec, United States, and foreign countries.

We have an "agreed charge" with the C.N.R. on deliveries to points in Ontario and Quebec but these rates can be increased at any time and our industry has no recourse to offset. The last increase, put into effect on January 1, 1967, of ten per cent cut, by more than half, our advantages under M.F.R.A. Our transportation to ports for water shipment to foreign countries are assisted by M.F.R.A.—which is certainly necessary if we are to meet the competition from Maine producers, who have very low freight rates to coastal ports. Our export shipments are made through the ports of Halifax and St. John after mid-December each year.

We would appreciate very much if the potato shippers of this Province are permitted to present their case on the above mentioned points; also other related problems which they are confronted with, such as reefer car service, carferry service, etc.

Yours truly,

P.E.I. POTATO MARKETING BOARD

R. L. Burge, Chairman.



## APPENDIX A-90

Presentation of  
DOUGLAS BROS. & JONES INC.  
To The  
Committee on Transport and Communications

## 1. Purpose of Presentation

The object of this presentation is to protest the extreme increase in freight charges on products we sell and service to the public in the province of Prince Edward Island.

## 2. Our Firm

Douglas Bros. & Jones Inc. have been serving residents of Prince Edward Island for the past 23 years. Our business ranges from the retail merchandising and sales of appliances and recreational items to the installation of plumbing, heating, home water systems, farm supplies, etc. We also have departments that handle contracting, well drilling and light construction. We provide parts and service on everything sold.

## 3. Our Objection

The extreme increase in freight charges has resulted in a substantial increase in the cost of the basic products to the public. Manufacturing and labor costs are certainly creating almost daily marginal increases and it might be expected to realize a relative increase in the cost of transporting these products. What has been forced on us is in fact a tariff rate that in many cases has increased the retail cost of the product as much as 20%.

## 4. Example

\*The attached photostatic copies of shipping bills point out our objection very clearly.

\* Shipping bills not reproduced.

COPY A—Copy A contains two freight bills on ceramic tile shipped from Montreal. The first on July 8, 1967 is charged to us at a rate of \$1.87 per cwt and the second on September 19, 1967 for the same product at a rate of \$4 per cwt. This represents an increase of well over 100%.

COPY B—Copy B is a prepaid shipment from Chatham, Ontario. We do not pay these charges but they are certainly reflected in the cost of the product to us. On September 1, 1967 we received synthetic pipe from this manufacturer at a rate of \$3.67 per cwt. On September 13, 1967, 12 days later the rate had increased from \$3.67 per cwt to an unbelievable \$13.42 per cwt or an increase of over 360%.

## 5. Request

We ask that you take a long, hard look at the rates we are now forced to pay to bring the products we sell to Prince Edward Island. Transportation is necessary and a fair rate is acceptable, but why should the residents of our province be forced to pay a much larger price for goods brought in to subsidise the transportation industry.

N. K. MacConnell

Douglas Bros. & Jones Inc.

## APPENDIX A-91

## BRIEF

## SUBMITTED TO

THE PARLIAMENTARY COMMITTEE ON TRANSPORTATION BY THE  
CENTRAL NEWFOUNDLAND CHAMBER OF COMMERCE

We greatly appreciate your interest in travelling to Newfoundland at this time of the year to acquaint yourselves with our transportation problems.

The Central Newfoundland Chamber of Commerce, together with representation from the Springdale Chamber of Commerce, encompasses an area bounded by the following Municipalities:

Point Leamington, Botwood, Bishop's Falls, Brand Falls, Windsor, Badger and Springdale,

with a combined population of approximately 30,000 people.

Both above-named Chambers are associated with, and have representation on, the Newfoundland Board of Trade.

We support the submission of the Newfoundland Board of Trade and lengthy comments on our part would be repetitious. However, there are a few points we wish to re-emphasize:

1. The absolute importance of retaining, or even increasing, the benefits of the Maritime Freight Rates Act, particularly as it applies to the Central part of Newfoundland.

We are a captive market to rail service, with regard to all our business with the Maritime region. Our area is non-agricultural, and we depend almost entirely upon our supplies such as potatoes, hay, apples and other farm and dairy products from the Maritime Provinces.

2. We are also deeply concerned with the new LCL rates introduced by Canadian National Railways on September last.

We have no competitive means of transport for our supplies from the Provinces of Quebec and Ontario. While it is true Clarke Traffic Services Ltd. operate a service to Botwood during the navigational season, their rates mainly are based on Canadian National Railway's tariffs. However, the Clarke Traffic Services Ltd. is welcome in that it provides a much needed improved delivery service.

3. We feel strongly about avoiding the costly and annoying experience to which we have been subjected during recent years when our freight has been backed up from North Sydney to Truro and repeated incidents of pilferage, damages, shortages, and shipments becoming separated in transit, with the balances turning up weeks, and even sometimes months, later.

On this subject we feel the Canadian National Railways is moving in the right direction in their policy of containerization.

The Newfoundland Board of Trade has brought to your attention the problem of freight congestion when the Port of North Sydney is blockaded by ice. We would consider this our point #4 and this intensifies the situation named on pilferages, shortages, etc. Consequently, we would strongly recommend research into the feasibility of an alternate ice-free port such as Mulgrave, Nova Scotia.

Our 5th emphasis, and last but by no means least, is one that is the cause of a serious complaint in that different rates are being charged on the same commodity at the same shipping point, sometimes the same day and for the same destination.

Members of the Springdale Chamber of Commerce will briefly present to you exhibits showing such disparity in rates.

While we realise details of this nature are not part of your terms of reference, we consider it worthwhile to bring this to your attention as one of the transportation problems we are presently experiencing.

Gentlemen, we are grateful for the opportunity to appear before you, trying to make this as short as possible, and trust your recommendations will be beneficial to all concerned.

M. Arnold  
Secretary

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OF  
PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Trans-  
lation, Secretary of State.

ALISTAIR FRASER,  
*The Clerk of the House*













BINDING SECT. APR 1 1969



